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Franco-German telecom deal in doubt

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Dilemmas of strategic alliances

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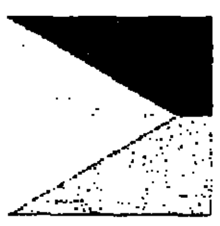

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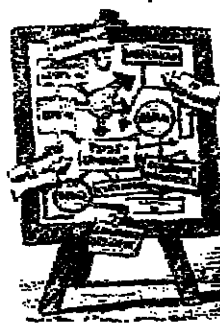
World Business Newspaper

MONDAY OCTOBER 2 1995

Business Education

A page focusing on business education joins our regular Monday FT line-up from today. This expansion of our management coverage will review courses, analyse trends and report on innovations. It will also provide a practical guide through the maze of opportunities on offer from business schools worldwide and in-house course providers.



Business Education Page 13

Nigeria reprieves alleged plotters but resists early poll

Nigerian head of state General Sani Abacha bowed to international pressure and commuted death sentences on 13 alleged coup plotters, but resisted calls for an early return to civilian rule, saying presidential elections would be held in 1998. Page 20

Airlines call for cut in rail subsidies: European airlines, which are increasingly worried by the threat from the expansion of high-speed rail networks, asked the European Commission and national governments to scale back their railway subsidies. Page 20

Cathay Pacific strikes US deal: Hong Kong flag carrier Cathay Pacific Airways welcomed an agreement with the US allowing it direct routes to 14 American cities. The accord came after eight years of talks. Page 4

French seize Greenpeace ship: Greenpeace said its ship the Manutea, involved in protests against French nuclear tests in the South Pacific, was seized by the French. France resumed testing at Mururoa atoll last month and plans up to seven more tests.

Brittan seeks closer EU-US accord: European trade commissioner Sir Leon Brittan will today urge EU foreign ministers to support the principle of a far-reaching initiative to strengthen transatlantic political, economic and trade relations. Page 6

KPMG expected to separate audit arm: Global accountancy firm KPMG is expected to announce tomorrow that it will turn its audit business from a partnership into a separate company with limited liability. The move is in response to the mounting cost of litigation. Page 21

"Poorly capitalised banks are like haemophiliacs on an assault course," writes Barclays chief executive Martin Taylor, who joins fellow former Lex writers Peter Riddell and James Joll to mark the column's 50th anniversary. Page 20

Further losses at RCS hit Gemina: Italian investment company Gemina, which plans a merger to form Italy's second largest private industrial group, reported interim pre-tax losses of L341bn ($212m) following further heavy losses at its RCS publishing and media company. Page 24

Aetna may sell property-casualty side: Aetna, largest quoted insurance company in the US, is considering selling its property-casualty business and reviewing options for its other businesses to improve shareholder values. Page 24

Schumacher takes European grand prix: German Michael Schumacher, driving a Benetton, won the European grand prix at Germany's Nuerburgring, extending his world championship lead over Britain's Damon Hill from 17 points to 27. Hill's Williams left the track eight laps from the end of the race.

Lammtarra wins the Arc: Lammtarra, ridden by Frankie Dettori, won the Prix de l'Arc de Triomphe at Longchamp, France.

European Monetary System: Concern about European monetary union remained the dominant market theme last week, but there was little exchange rate movement, leaving the spread of currencies in the EMS grid little changed. The order of currencies changed, with the D-Mark switching places with the Austrian schilling and the peseta with the Danish krone. Currencies, Page 35

EMS: Grid September 29, 1995

The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies can fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a narrow 2.25 per cent band.

Austria	Sch35	Greece	Dr400	Malta	Lm0.60	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$20	Morocco	MDh15	S.Arabia	SR11
Belgium	BFr70	Hungary	Ft215	Neth	Fl 4.25	Singapore	S$4.30
Bulgaria	Lw110.00	Iceland	IKr220	Nigeria	Naira80	Slovak Rp	Sk60
Cyprus	C£1.10	India	Rs75	Norway	NKr18.00	S. Africa	R12.00
Czech Rp	Kc55	Israel	Shk7.90	Oman	OR1.50	Spain	Pta250
Denmark	DKr17	Italy	L3000	Pakistan	Rs40	Sweden	SKr17
Egypt	E£5.00	Japan	Y500	Philippines	Pso50	Switz	SFr3.60
Estonia	EKr 20	Jordan	JD1.50	Poland	Zl 4.20	Syria	S£50.00
Finland	FM15	Kuwait	Fils.625	Portugal (m'land)	Es230	Tunisia	Din1.500
France	FFr11.00	Lebanon	US$1.50			Turkey	L55,000
Germany	DM3.80	Lux	LFr70			UAE	Dh12.00

Finance ministers reaffirm no change in Maastricht treaty or Emu timetable

EU on cours for currency plan

By Lionel Barber in Valencia

The European Union is on course for agreement by the end of the year on a "master plan" for the introduction of a single currency, most likely to be called the Euro, by January 1 1999.

The plan for monetary union, which largely accommodates German concerns, was given a broad welcome at a weekend meeting of EU finance ministers and central bankers in Valencia, Spain.

In a message to jittery financial markets, ministers reaffirmed there would be no change in the Maastricht treaty or the Emu timetable, and that Emu entry criteria would be applied strictly.

In addition, support grew for the German-led campaign for tougher budgetary enforcement among Emu countries, most likely through a new "gen man's agreement" rather th treaty. But the UK insistec countries outside the Emu should not be penalised t' new rules limiting deval imposing trade sanc "delinquent countries"

Only two countries and Luxembourg - ria on inflatior budget defic Although more than made strong progress on tion, the big est – particularly for France – is to meet deficit targets of 3 per cent of GDP.

Mr Kenneth Clarke, UK chancellor, predicted the UK would meet the criteria and that Britain's place was among low inflation, hard currency countries rather than weaker devaluation-prone economies. But he sted the UK government ild keep an open mind on ther to exercise its right to pt-out. Although the meeting not a decision-making forum, eached a consensus on details the timetable and the introduc n of Euro-notes and coins:

● The political decision on ich countries qualify for Emu be taken on the basis of ctual 1997 economic data rather than forecasts or quarterly results. These data are unlikely to be ready until early 1998, when the UK will occupy the rotating EU presidency.

● The future European central bank (ECB) will need around 12 months to prepare for its operation and the locking of exchange rates among participating countries. This delay could threaten the treaty-mandated date for launching the single currency on January 1 1999.

● The ECB will assure stability during the switchover by adopting a single monetary policy and taking responsibility for foreign exchange dealing for Emu participants vis-a-vis the rest of the world. The ECB will also offer quotations, collateral, and real-time gross settlement in the new currency, according to Mr Alexandre Lamfalussy, president of the European Monetary Institute, forerunner of the ECB.

● The changeover from national currencies to Euro-notes and coins will be phased in over a period of up to 3¼ years to allow banks and the public time to adjust. This delay may disappoint the European Commission and some big banks pressing for a faster switch but the UK and Germany – supported by the central banks – resisted on the grounds it must be market led.

Ministers also agreed "a proportion" of debt should be denominated in new currency but left open how much. In addition, Germany killed off the Ecu as the name of the new currency because it is unpopular with the German public. The new favourite seems to the "Euro".

Mr Lamfalussy said he would unveil the EMI's "master plan" on the transition to a single currency in mid-November. This would allow finance ministers and heads of government to give their approval at the EU summit in Madrid in December.

Consensus shifts to German agenda, Page 2
The price of Emu, Page 25

Consortium in $2.1bn bid for Deutsche Postbank

By Judy Dempsey in Berlin and Nicholas Denton in London

A consortium including Deutsche Bank and Deutsche Post has made a DM3.08bn ($2.1bn) bid for a three-quarters stake in Deutsche Postbank in the largest hostile takeover attempted in German corporate history.

In an unusual twist, both the target and the leading bidder, Deutsche Post, are state owned. The German government, rather than stock market investors, will make the final decision.

Deutsche Postbank, Germany's national girobank, was until last January under the umbrella of Deutsche Bundespost together with Deutsche Post and Deutsche Telekom, the state postal and telecommunications operators. They were then split and turned into separate shareholding companies in preparation for privatisation, which is expected to take place in 1998. All three are 100 per cent owned by the state.

Mr Joachim Strunk, spokesman for the Postbank, yesterday confirmed that the bid, if successful, would give Deutsche Post a 40 per cent stake in Postbank, Deutsche Bank 20 per cent and Swiss Reinsurance 15 per cent.

"We are really surprised by this hostile bid," said Mr Strunk. "We were already holding talks with other parties interested in acquiring stakes in the bank, including insurance companies." The German post ministry said it would consider the bid, while the German government would make the final decision.

Postbank officials claimed the offer undervalued the bank. A year ago Salomon Brothers, the US investment bank, estimated that the Postbank would have a DM6bn market capitalisation.

"But the Deutsche Bank consortium has valued us at DM4bn, which is too low. This is more than a good bargain for them," said Mr Strunk. The Postbank last year had a balance sheet of DM390bn and for the first time reported a profit of DM51m.

"This is an opportunistic offer, the acceptance of which would

Continued on Page 20
Mittelstand on map, Page 27

Neighbourhood stores drive by Sears Roebuck

By Richard Tomkins in New York

Sears Roebuck, the world's third biggest retailer, is planning to open hundreds of neighbourhood stores across the US as part of a radical change in retailing strategy initiated by Mr Arthur Martinez, the company's new chairman and chief executive.

The move marks a significant departure from the company's previous strategy of focusing on big department stores in shopping malls, reflecting the new management's view of the changing outlook for growth in the US retail market.

It contrasts sharply with a recent trend in the US retailing industry towards out-of-town developments and big mall-based stores. It could indicate a growing consumer preference for convenient smaller specialist stores within easy reach of the home.

In the last year Sears Roebuck has gone through a big transition, divesting its Allstate insurance subsidiary and other non-core operations to concentrate on retailing. Two months ago Mr Martinez, formerly head of the retailing division, succeeded Mr Edward Brennan as chairman and chief executive.

Recently, Mr Martinez has improved the profitability of the company's 800 department stores by switching the emphasis from furniture and home improvement products to clothing and cosmetics, which carry higher profit margins.

However, Mr Martinez said in an interview that the strategy had its limits because research indicated that most of the growth in consumer spending over the next five to six years would go into goods and services for the home, not into clothing.

In the next five years Sears Roebuck plans to open about 1,000 hardware stores and 300 furniture stores, none of them in malls and all far smaller than its traditional department stores. Over the same period it plans to open between 700 and 800 dealer stores in rural areas, usually on a franchise basis.

It plans a big expansion of three neighbourhood store formats: the Sears Hardware stores, selling tools, hardware and garden products; the Sears Homelife stores, selling furniture; and the Sears Dealer stores, selling home goods in rural areas.

The most robust areas of growth in consumer spending, Mr Martinez said, would be in "a whole panoply of goods and services for the home – everything from furniture to personal computers to carpets to wallpaper, home maintenance services, home repair services and home security services".

Sears Roebuck was well placed to take advantage of the trend because of its strong reputation for supplying these goods and services, Mr Martinez said. "But what we don't have is enough ways to reach the customer with our goods."

Portuguese prime minister Aníbal Cavaco Silva and his wife Maria walk past a poster for the film Desperado after voting in the country's general election. After a decade of rule by the centre-right Social Democrats, exit polls suggested the Socialist party would return to power. Report, Page 2 Picture: Reuter

Italy speeds up privatisation with $1bn sale of Ina stake

By Andrew Hill in Milan

The Italian government has given a strong impulse to its sluggish privatisation programme with the L1,700bn ($1.05bn) sale of a core stake in Ina, the former state-owned insurer.

It has also given a clear signal that it will float Eni, the state-owned energy and chemicals group, on the stock market by December, in what could be one of the country's biggest share placements ever.

The Italian Treasury sold 18.37 per cent of Ina on Friday to a number of Italian and foreign investors, and pledged to sell the rest of its 52.75 per cent stake by mid-January. At the same time, Eni announced it would seek a Milan listing for its shares.

The Treasury sold the Ina shares to a nucleus of stable shareholders including Italian banks and pension funds, foreign insurers – Nurnberger of Germany, in which Ina already has a stake, and AGF of France – and the investment banks SBC Warburg and Morgan Stanley.

The remaining 34 per cent Treasury stake will be transferred to the private sector between the start of December and mid-January through a placing of bonds convertible into Ina shares. That operation could raise a further L3,000bn, which would probably make it the biggest convertible bond issue ever, the Treasury said. The details have yet to be established.

The timing of the convertible issue has been set in order not to hinder the first phase of privatisation of Eni, the parent company of the Agip oil group, Snam, the gas producer, and Enichem, the chemicals company. The government would like to sell as much as 20 per cent of Eni before December.

Officials believe the Eni sale will avoid the procedural delays holding up the privatisation of Stet, the telecoms holding company, and Enel, the electricity producer, both of which are awaiting parliamentary approval of a regulatory authority.

Ina was partly privatised through a public offer of shares last year. But the Treasury, advised by Schroders of the UK, ruled out a second public offer on the grounds that the shares were trading below last year's flotation price of L2,400. The Treasury also wanted to avoid the heavy criticism which followed the placing of shares in IMI, the banking group, earlier this year: 30 per cent of IMI ended in the hands of banks controlled by public-sector foundations.

Banks also make up the core of Ina shareholders, but with a smaller percentage of the shares. Cariplo of Milan, with 4 per cent, and Istituto San Paolo di Torino and IMI with 3 per cent each, paid L2,270 a share for the first 1.5 per cent, and L2,400 for the rest of their holdings, against Thursday's official closing price of L2,188. They will hold the shares for at least three years.

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EU nears verdict on secret legal meetings

By Caroline Southey in Brussels

The European Union's highly secretive law-making procedures could be opened to public scrutiny if foreign ministers meeting today in Luxembourg agree to a new code of conduct.

The code would limit the ability of the Council of Ministers, the EU's main law-making body, to keep secret minutes of me[illegible]s and to add unpublished amendments to laws.

The proposal is the result of a long battle waged by, among others, member states such as Denmark and Sweden and the European Parliament to make EU institutions more accountable. The parliament has argued that EU legislation must meet the same democratic requirements as legislation in the 15 member states.

But a battle between Denmark and the other member states could derail a decision today. The Danes believe the code of conduct does not go far enough because it does not rewrite the procedural statutes.

"Some member states would accept the code of conduct but consider Denmark's insistence on changing the rules too confrontational. If it insists on pushing for a vote on procedures it could inflame passions and mean we land up going backwards and not forwards," an EU official said.

The code would affect the publication of council minutes which under the present system are deemed secret unless somebody asks to see them and the council, after a vote, agrees to release them.

Although the release of minutes would still be at the council's discretion, a draft copy of the code says it should ensure "the widest possible public availability of its minutes, save in exceptional cases".

The code would also limit the council's ability to attach unpublished declarations or "minuted statements" to the publicly available legal text of laws they pass.

The council has increasingly used minuted statements, which were originally designed as a means of clarifying legal jargon, as a tool to buy off recalcitrant ministers by giving them opt-outs in the unpublished notes.

In some cases the statements have led to laws being watered down or contradicted. The Council of Ministers' legal services department examined the practice and found that "statements in the council minutes, which have always been a handy negotiating tool, have developed in such a way that they now threaten to undermine legal certainty". In some cases "the number of statements is out of all proportion".

It cited the example of the frontier-free television directive, which had 27 amendments, including one which says that required breaks between advertisements could be "slightly less than 20 minutes" when the legal text says "at least 20 minutes". Other examples cited are exemptions for Germany on religious broadcasts and for Britain on manual filing systems.

The code says the council should "use statements in the minutes sparingly" and that, "wherever appropriate", they should be incorporated in the legislative act. Statements should also be compatible with the text of the act.

The council should also agree in principle that statements "are not covered by the obligation of professional secrecy". But, it adds, the council would "seek the agreement of the authors of the statement before deciding to make it available to the public".

Bonn sets agenda for monetary union

Valencia meeting has kept up momentum behind Emu, writes Lionel Barber

If monetary union goes ahead in Europe, it will be on German terms. This was the message from the weekend meeting of EU finance ministers and central bankers in a seaside *parador* outside Valencia.

On issues from the name of the new currency to tougher rules on budgetary discipline for Emu participants, the consensus shifted decisively toward the German agenda as advanced by the Bundesbank.

Mr Theo Waigel, German finance minister, set the tone on Saturday afternoon when he strode out of the meeting to hold forth at the 18th hole of a nearby golf course.

Mr Waigel, who has had a little trouble with his diplomatic putting recently, wore the smile of a man who had just knocked in a birdie. He forecast, correctly, an outcome almost entirely favourable to German interests:

● First, the political decision on which countries meet the Maastricht treaty criteria will be made on the actual economic data for 1997 rather than on quarterly results or forecasts. This should reduce the scope for those tempted to massage budget deficits or government debt in order to squeeze into the Emu club.

● Second, all Emu participants seem destined to subscribe to a new "gentleman's agreement" to enforce curbs on budget deficits binding on future governments. This would fall short of a new treaty; but Mr Jean-Claude Trichet, governor of the Bank of France, agreed with the Bundesbank suggestion that it should include a commitment to re[illegible]uce deficits to "well belo[illegible] 3 per cent of GDP in a reco[illegible]y, so allowing a "ceiling[illegible] 3 per cent in recession.

● [illegible] Germany has all but el[illegible] Italy from the first wa[illegible]u countries. Valencia[illegible]tion of the strict int[illegible] of the Maastric[illegible] by the end of 199[illegible] impossible for Ita[illegible]e targets on cur[illegible]ficit projections.

● F[illegible] has killed off t[illegible] of the new [illegible] does not fi[illegible] German [illegible]o-thirds of whom re[illegible]ther undecided or hostile to the idea of exchanging a rock-solid D-Mark for an untested Eurocurrency. The new favourite seems to be the "Euro".

● Fifth, the Bundesbank has resisted European Commission efforts to introduce a rapid introduction of the new currency for almost all transactions after 1999. The transition will be slower than Brussels would prefer, and will be market-led.

German advances in the Emu debate are all the more striking because they are in addition to the earlier EU decision to locate the European central bank in Frankfurt, and to model its operation largely on the lines of the Bundesbank, according to participants in the Valencia meeting.

Yet the same participants warned that the impression of German power may be exaggerated by several factors outside the control of the Bundesbank or the Bonn government.

Most noticeable is the weakness of France, traditionally the political counterweight of Germany in the EU. Unlike Germany, France does not meet the Maastricht criteria and is desperately seeking to reassure Bonn and the financial markets that it will be ready in 1997.

Mr Jean Arthuis, finance minister, said on Saturday night that President Jacques Chirac regards it as a "point of honour" that France will be ready; but doubts remain about the Paris government's readiness to introduce spending cuts in the face of public sector opposition.

Theo Waigel: confidently forecast outcome of meeting

The second natural counterweight to Germany is Britain; but the UK has an opt-out on monetary union and the Eurosceptics's near stranglehold on UK policy toward Europe makes a shift impossible before its next election.

British policy, therefore, is geared to assuming that Emu will happen and trying to mould it as much as possible to UK interests, according to a senior UK official.

Mr Kenneth Clarke, Chancellor, confirmed this by declaring that he sees Britain's future inside a club of low inflation, hard currency northern continental countries.

Yet the strongest reason why German arguments hold sway is that they enjoy support among central bankers whose influence on the Emu debate is fast becoming apparent. Their leader is Mr Alexandre Lamfalussy, president of the Frankfurt-based European Monetary Institute, precursor of the future European central bank.

Mr Lamfalussy dominated the closing news conference on Saturday night with a calm exposé of the technical difficulties surrounding the transition to the single currency. By predicting that his "master plan" on the countdown to Emu would be ready by mid-November, he conveyed the impression of an inevitability about the Emu project.

And here is the rub. Whatever the market doubts about Emu, Valencia kept up the momentum behind Emu. It removed technical obstacles, setting the stage for a decision on the passage to a single currency at the Madrid summit in December.

For the European Commission, which has worked ceaselessly to keep Emu on track, this was a satisfactory outcome. As for the German imprimatur on the project, the calculation in Brussels is that this makes it more – rather than less – likely that it will come to fruition.

Former minister accused of attack on Shevardnadze

By Chrystia Freeland in Moscow

Georgian officials yesterday accused the country's former security chief of conspiring with Russian extremists to organise the recent assassination attempt on Mr Eduard Shevardnadze, the Georgian leader.

In the most detailed official report since the August 29 car bomb attack, Georgian officials named Mr Igor Georgadze, for[illegible] security minister, as the mastermind behind the failed plot. Mr Georgadze, who has close ties to some of Mr Shevardnadze's political opponents, was sacked immediately after the assassination attempt and has taken refuge in Moscow.

Georgian officials said they would ask for his extradition from Moscow and expected Russian authorities to comply with their request. However, in an open letter to Mr Shevardnadze published in a conservative Russian daily last week, Mr Georgadze called the Georgian leader a "tyrant" and said he would not return to Georgia while Mr Shevardnadze was in power.

Mr Shota Kviraya, the minister of the interior whose report yesterday accused Mr Georgadze, said the former minister was behind a spate of recent political killings in Georgia and accused him of plotting to assassinate Mr Shevardnadze before.

Mr Kviraya gave a detailed description of the August bomb attack, alleging that the bomb itself had been put together in the home of Mr Pantemelon Georgadze, the former security minister's father.

Some analysts speculated that Russian hardliners could have acted out of lingering resentment over Mr Shevardnadze's role as foreign minister under former Soviet President Mikhail Gorbachev in dismantling the communist system and precipitating the collapse of the Soviet Union.

But other observers have suggested that Russians could have a more immediate grievance against Mr Shevardnadze. One of Moscow's political priorities today is to ensure that the main export pipeline from the rich Caspian Sea oil reserves travels through Russia, but a rival route through Georgia is strongly backed by Mr Shevardnadze.

Mr António Guterres, Portuguese Socialist party leader, casts his vote in yesterday's general election *Associated Press*

Victors unlikely to secure overall majority

Portugal's Socialists set for return to power

By David White and Peter Wise in Lisbon

Portugal's Socialist party was poised last night to return to power after an absence of 10 years, according to unofficial polls after the close of voting on the mainland in yesterday's general election.

However, the exit polls broadcast by three television channels all showed the Socialists failing to secure the 116 seats they would need for an outright parliamentary majority.

The ruling centre-right Social Democrat Party (PSD) was expected to lose about a third of the 135 seats it held previously in the 230-seat parliament.

The margin of the expected victory was a clear triumph for Mr António Guterres, the 46-year-old Socialist leader, who is set to be invited to form a government later this month. A new government is not due to assume office until November.

The expected Socialist victory would mark its highest ever general election result since Portugal returned to democracy in the wake of its 1974 revolution. The exit polls gave the party up to 43 per cent of the vote.

With the Communist vote more or less stable at around 9 per cent, the combined forces of the left were expected to win dominance of the parliament. However Mr Guterres has ruled out any form of coalition with the unreformed Communist party in order to govern.

He is expected to form a minority government, challenging the other parties to allow the passage of a government programme and a tight budget for 1996 in line with the convergence targets for European monetary union.

The PSD faces returning to opposition after participating in governments for the past 16 years without interruption, and after eight years with a parliamentary majority.

The election is likely to result in a challenge to the position of Mr Fernando Nogueira, who became PSD leader in February after Mr Aníbal Cavaco Silva, the outgoing prime minister, announced he was standing down.

Mr Cavaco Silva is expected to stand for president early next year.

The polls, broadcast by state and private channels, gave the Socialists between 103 and 111 seats, with between 39 and 43 per cent of the vote. this compares with 72 seats previously. The PSD was reckoned to win between 88 and 95 seats, with its share of the vote whittled down from over 50 per cent four years ago to around 35 per cent.

The right-wing Popular party showed strong gains and was expected roughly to triple its previous five seats, bringing it close to the Communists.

The four main parties were expected to win all but one of the seats in parliament.

In spite of fine sunny weather throughout the country, abstention was reckoned to be at a record general election level of over 32 per cent. Voters in several wards boycotted the election in protest at lack of running water, sewerage and roads.

Portuguese born after the 1974 revolution were voting for the first time in a general election. Ms Raquel Torres, 19, said after casting her vote last night: "It feels good to have a say in the way my country is run."

Bavaria to allow TV home shopping

By Judy Dempsey in Berlin

The Bavarian television and radio authority has allowed a new commercial television company access to two regional channels in a pilot project likely to usher in home shopping throughout the country.

Television home shopping in Germany is restricted to one hour a day but the advertising cannot be continuous. It is also subject to the approval of the individual Medienanstalten, the 16 television and radio authorities which regulate broadcasting and issue new licences.

Bavaria's Medienanstalt has broken ranks with the others, convinced that teleshopping is neither opinion-forming nor broadcasting in the strict sense, the reasons behind the current restrictions. It has given the go-ahead for Home Order Television (HOT), an independent television company, to transmit without interruption home-order television before 3pm and after 11.15pm on two local television channels.

HOT is a joint venture formed by Quelle, Germany's giant mail-ordering company, and Pro-7, the commercial television channel partly owned by Mr Thomas Kirch, son of Mr Leo Kirch, the Munich-based media mogul.

The pilot project will last for two years. But in December, the 16 Medienanstalten will meet to vote on whether to allow similar schemes in the other states. "Even if they reject it, I am confident Bavaria will continue to back this project," said Mr Alexander Fink of Pro-7. "In any case, no matter what happens, sooner or later the European Union will make a final decision about how long home shopping can be transmitted."

The only restrictions placed on HOT is that it runs home shopping without any other kinds of programmes in the times it has been allotted.

The project has the potential for changing the way Quelle markets its products. The company said huge amounts of money were spent on mail-order catalogues, and this could soon change.

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Czechs ponder advantages of convertible koruna

CZECH REPUBLIC

By Vincent Boland

Last week *Lidove Noviny*, the centre-right Prague daily, trumpeted the Czech parliament's vote to make the koruna convertible from yesterday with the headline, loosely translated: "The world's your oyster with the Czech koruna."

It was a theme picked up by other papers in reporting on an event that was interpreted as a historical milestone in the country's economic reforms.

"Czech koruna belongs again among world currencies," declared *Mlada Fronta Dnes*, the leading daily, which quoted Mr Ivan Kocarnik, the Czech finance minister, observing that the vote strengthens the prestige of the Czech Republic.

"No limit on foreign exchange allowances," screamed the mass-market colour daily *Blesk*, which managed to find room on page four for its report, page one being filled with a report on a serial contract killer.

The foreign exchange act, approved unopposed by parliament on Tuesday, introduced full convertibility on current account transactions yesterday as well as partial liberalisation for capital account transactions. It also removed a Kč100,000 ($3,795) limit on the amount of foreign currency Czech citizens can buy, allowed Czech companies to borrow abroad and permitted Czech investors to dabble in foreign stock markets through authorised dealers with permission of the Czech National Bank, the central bank.

It also freed up direct investment, a point noted by Mr Pavel Richter, a commentator on the business daily *Hospodarske Noviny*. "The new law will be clearer for foreign investors than the existing act," he wrote. One of the benefits of the new act was that those restrictions still in place were spelt out clearly, leaving nobody in any doubt about what could and could not be done, he added.

EUROPEAN PRESS REVIEW

There was much comment on whether the koruna can now be regarded as a hard currency and on the historical parallels invoked by its return to the ranks of global currencies. "Czech wallets are once again filled by a currency as hard as [that in] Germany, France or Great Britain," observed Mlada Fronta Dnes.

Blesk was a little less certain. Its 300,000 readers are unlikely to reap any immediate benefits from a convertible koruna, especially given that the former Kč100,000 limit amounts to nearly six months' salary for many of them. After pondering the move for 24 hours, the paper's headline writer clearly came back to the office unimpressed: "Czech koruna still doesn't get you very far abroad" was the smaller headline on a report on the impact of convertibility.

Others, too, noted the potential downside. Mr Richter at Hospodarske Noviny, a paper that often reflects CNB thinking, observed that both Mr Josef Tosovsky, the central bank governor, and the government would inevitably lose more power to enforce an independent monetary policy unaffected by movements in the foreign exchange markets.

Mr Richter said the law had "closed the back door as a means of escape" should swings in the exchange rate – which is not immediately affected by the convertibility law – threaten to undermine this policy at a later date.

It fell to editorial writers Jana Havligerova and Tomas Marek at Mlada Fronta Dnes to point out something obvious that may have been lost in the euphoria that greeted passage of the law in parliament: that currency convertibility is all very well, but will it make us richer?

"The standard of living of the regular citizen is indisputably lower than before the beginning of the transformation [in 1990]," they wrote. "Prices have risen significantly and wages are only slowly catching up. These are the visible results of changes that affect every citizen's pocket."

The editorial writers, under the headline "The next stage of transformation", were nonetheless sanguine that the benefits of a convertible koruna would be felt by everybody eventually. "The new foreign exchange act is also a visible achievement [of reforms], though more so for the rich. But it is a promise for others as well. Everybody has good reason to be optimistic."

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EUROPEAN NEWS DIGEST

Latvians likely to turn right

Latvians went to the polls yesterday in the second and final day of voting for a new parliament. In contrast with recent elections in other eastern European countries, Latvians are expected to replace ruling centrists with a more rightwing government. Results are not expected to be published until today, but early returns yesterday suggested a low turnout. By yesterday afternoon. only half of eligible voters had gone to the polls. Ethnic Russians – who make up a third of Latvia's population – have complained that many of them were excluded from the vote because of the tough citizenship requirements.

Opinion polls and most political commentators expected two rightwing parties, the Farmers Union and the Latvian National Conservative party, to win enough of the 100 parliamentary seats to be able to form a coalition government. Latvia's Way, the centrist party which leads the current coalition. is expected to lose some ground in the legislature, in part because of a banking and financial crisis which rocked Latvia's economy this spring. *Chrystia Freeland, Moscow*

Russia closes tariff loopholes

Russia yesterday officially revoked all exemptions on import duties. Mr Anatoly Chubais. the deputy prime minister spearheading the drive to revoke the exemptions, said on Friday that they had cost the treasury as much as $10bn (£6.4bn) in lost revenues. The exemptions had allowed a number of privileged organisations, including the National Sportsmen's Fund, to import goods without paying normal duties as a way of financing their charitable activities. However, critics of the exemptions say they were a loophole which allowed businessmen with close links to the government to earn huge profits.

Mr Chubais has vowed that all the exemptions would be cancelled yesterday as part of what he termed "the war for budget revenue". But previous efforts to revoke the exemptions have faltered. The privileges were set to expire on July 1 but survived because all the exempted organisations were reported to receive individual government documents allowing them to defer payment of duties for several years. If the exemptions are actually lifted, Russian consumers should feel the results over the next few weeks in the form of a jump in prices of popular imported goods such as cigarettes and alcohol. *Chrystia Freeland*

Presidential plea for budget

Austrian President Thomas Klestil yesterday urged government leaders to put partisan politics aside and agree on a budget for 1996. He said voters would react angrily if the government collapsed and new elections were called less than a year after the last poll. He implored Chancellor Franz Vranitzky's Social Democrats and the conservative People's party to keep trying. Government leaders made another futile attempt again yesterday to resolve the budget dispute which was supposed to have been settled last week.

Finance Minister Mr Andreas Staribacher has been struggling to cut the 1996 deficit to Sch92.8bn (£5.8bn) from a projected Sch102.3bn in 1995. His three-year goal is to bring the deficit down from 4.3 per cent of GDP in 1995 to the 3 per cent level stipulated by the European Union's Maastricht treaty for membership of a single European currency. *Reuter, Vienna*

Small pay rise for Finns agreed

Finland's Social Democratic-led coalition government has received a boost to its drive to maintain low inflation from a national wage settlement that gives an average 1.8 per cent pay increase in November and a further 1.3 per cent in October 1996. The centralised agreement, finally accepted by trade unions and employers on Friday after long negotiations, should help Finland remain on its current twin-track of vigorous growth and Europe's lowest inflation rate, well under 1 per cent.

The government, which includes conservatives, leftists and greens as well as the Social Democrats of Mr Paavo Lipponen, prime minister, agreed to income tax cuts of more than FM2bn (£296m) as part of the wage agreement. But it said the direct budget impact of the tax cuts would be lower and would not undermine its fiscal programme to meet the criteria for European monetary union, which the government is committed to joining. A likely spin-off of the wage agreement is a cut in interest rates by the central bank – a move the government is eager to win to help in its primary economic battle against unemployment, running at close to 17 per cent of the workforce. *Hugh Carnegy, Stockholm*

Croatian killings condemned

The head of Croatia's Roman Catholic Church yesterday condemned killings, looting and house-burning in the Krajina region recaptured from rebel Serbs. Cardinal Franjo Kuharic was responding to a growing number of reports that Croat soldiers killed elderly Serbs and looted and burned Serb homes after the Croatian army's August offensive took control of Krajina. The US and the human rights group Amnesty International urged the Zagreb authorities last week to bring offenders to justice. The government's reaction to the reported abuses has been muted.

Cardinal Kuharic, addressing an open-air mass for 3,500 soldiers and officers at the shrine of Marija Bistrica, condemned the pillaging and torching of houses in "liberated areas". "Those who did it have offended Croatia and the Croatian army," the state news agency HINA quoted him as saying. Nothing could justify harming a human being, regardless of their race or origins, he said. *Reuter, Zagreb*

Scharping under fire as party splits widen

Resignation by general secretary Verheugen boosts speculation about German SPD leader's future

There are few lonelier figures in German politics than Mr Rudolf Scharping.

Speculation about the future of the 47-year-old leader of Germany's opposition Social Democratic party is rampant, following the abrupt resignation on Friday of SPD general secretary, Mr Günter Verheugen.

Mr Verheugen's going, in response to a slump in the party's fortunes, was the latest and most serious of several departures that have shaken the SPD over the past month. With less than three weeks to a crucial state election in Berlin, the party is trailing in the opinion polls far behind the ruling centre-right coalition of Chancellor Helmut Kohl. The power struggle between Mr Scharping and Mr Gerhard Schröder, the pro-business prime minister of Lower Saxony, which kept the German political world in thrall through August, is lying dormant and could break out at any time.

Nor are divisions within the SPD confined to personalities: senior party figures are at odds over a host of policies ranging from how to run and tax the economy. through Germany's involvement in Bosnia, to whether the country should build the Eurofighter aircraft.

Late in August, it looked as if Mr Scharping might have gained control over his quarrelsome party. The SPD praesidium, its top policy-making body, gave him its support after weeks of discord between Messrs Scharping and Schröder over whether Mr Scharping should be the party's candidate in the Germen federal elections in 1998.

But that was just the calm before the storm. Days later, on August 31. Mr Scharping fired Mr Schröder as the SPD's chief economic spokesman after differences over policy. In September. other right-of-centre SPD politicians announced they were stepping down from party office.

Meanwhile Mr Scharping's support among the SPD's party bosses has ebbed. Mr Johannes Rau, the influential SPD prime minister of North Rhine-Westphalia, who is generally held to be Mr Scharping's mentor, in effect put him on probation after a disappointing performance in last month's Bundestag debate on the 1996 budget.

Mr Scharping's political judgment and tactical skills have been called into question by his determination to support an unpopular plan to raise MPs' salaries by nearly 50 per cent by the end of the century. This has run into fierce opposition among SPD state prime ministers, who have threatened to block the measure when it comes up for approval the Bundesrat, the upper house of parliament.

The SPD has suffered a spectacular decline in support since Mr Kohl was re-elected a year ago with a narrow Bundestag majority of 10 seats. Mr Scharping, who a year ago was elected leader of the SPD in parliament with a 98 per cent vote, now trails Mr Kohl in national opinion polls by 30 points, the widest margin between a chancellor and opposition leader for 30 years. A week ago, the SPD suffered a humiliating defeat in local government elections in one of its traditional strongholds, the port of Bremerhaven, coming second to the Christian Democrat party for the first time since the second world war.

Such results have raised the question of whether Mr Scharping is electable. Fueling such doubts are his wooden speaking performances in public and on television, which spread the perception that he is dull and devoid of charisma.

Certainly, the strain of his present position is beginning to show. Last Friday, he invited three international newspapers including the Financial Times, to a briefing in the Bundestag. His performance may have suffered because he was preoccupied with the impending loss of Mr Verheugen. But instead of presenting his views clearly, he mumbled and stumbled, pausing at length before each platitude. He came alive only occasionally, as when outlining his distaste for the economic changes in Britain over the past 15 years or his hopes for Germany's industrial future.

Mr Scharping is not without vision. He wants a more modern economy in Germany with strong forward-looking, high-tech industries in areas such as aerospace, telecommunications and cleaning up the environment. He wants to lower industry's costs by shifting the tax burden to consumers through an energy tax that would help protect the environment. But he is not a man to challenge Germany's powerful trades unions. Cutting costs at the expense of Germany's social welfare system is a taboo.

Today, Mr Scharping is on his travels, to plead for greater European integration, first at the annual congress of the Austrian Social Democrat party in Vienna and later at the British Labour party conference in Brighton: a punishing schedule but probably less stressful than life in Bonn.

After his return, he will set about seeking a replacement for Mr Verheugen. Then there are the hurdles of the Berlin election on October 22, which the SPD is expected to lose badly; elections for the managing board of the party in parliament two days later; and the SPD annual conference in Mannheim in mid-November, where his future could be on the line.

Nonetheless, Mr Scharping believes he has some cause for hope. Over the long term, he says, Mr Kohl's support has been declining. Mr Kohl had his worst election result in 1994, a year that saw some recovery in the SPD's fortunes.

"The SPD must get over its present stomach pains. It will take some time, but I am optimistic." Mr Scharping believes the SPD can return to power in 1998 provided it is a "modern, progressive party with economic competence and social responsibility".

That may be so. But for him to lead the party to such a victory would require a remarkable change of fortunes.

Peter Norman

Scharping: with his party trailing in the polls, a power struggle could break out at any time

CONTRACTS & TENDERS

THE WORLD BANK
REQUEST FOR PROPOSAL
TREASURY RISK MANAGEMENT SYSTEM
RFP NO. 96-657

Sealed request for proposals will be received at the World Bank Headquarters in Washington D.C., until November 13, 1995, for the World Bank's Treasury Risk Management System for the assessment of market risk and related applications. The system should provide various units in the Bank Treasury with a common set of tools to identify, measure, monitor, and control market risk for the purposes of i) overall asset/liability management, ii) management of the liquid asset portfolio, iii) management of the liability portfolio with regard to funding the Bank's loan portfolio.

The World Bank requires a client/server based open systems software for financial risk management. The risk management software chosen must function using the World Bank's standard hardware and software configurations. The "client" software selected must run under Microsoft's Window NT in order to be considered. The "server" portion may run under Windows NT or UNIX Operating Systems.

Request for Proposal documents will be available on October 3, 1995 at the World Bank Procurement & Contract management Division, Room L-4070, 1990 K Street, N.W., Washington, D.C., 20006. For additional information, contact Ms. Francine Holloway at (202) 473-1118.

The World Bank reserves the right to reject any or all pre-qualification statement without recourse.

NEWS: ASIA-PACIFIC

Cathay welcomes US air accord

By Simon Holberton in Hong Kong

Hong Kong and its flag carrier, Cathay Pacific Airways, yesterday welcomed an aviation agreement with the US allowing it direct routes to 14 American cities.

After eight years of talks, Hong Kong struck a deal with the US at the weekend which gives its carriers extensive access to the US aviation market and onward flights to Canada. Cathay had been restricted to US west coast cities.

In return, US carriers have won more rights to carry passengers and cargo to third countries – so called fifth freedom air rights. Under the pact, US carriers have fifth freedom rights for South Korea and the Philippines, and expansion of existing fifth freedom rights on routes between Hong Kong and Japan, Thailand and Singapore.

Asia-Pacific air traffic is projected to grow strongly in coming years and less restrictive operation arrangements will be needed to help meet demand.

The Geneva-based Transport Action Group has estimated that Asia-Pacific's share of international scheduled passenger traffic will rise to 50 per cent by 2010 from 26.6 per cent in 1985.

Mr Rod Eddington, managing director of Cathay, said he was pleased with the agreement and that the airline would launch new services after studying route feasibility and aircraft availability.

"These were difficult and complicated negotiations," he said. "The two governments had their differences but these were approached in a calm manner and the result is exciting opportunities for the airlines."

Hong Kong and the US have been in talks over air services since 1987, although only seven rounds of talks have been held. Originally the US wanted unlimited fifth freedom rights from Hong Kong, while Hong Kong wanted to fly to airports other than those on the US west coast.

The talks were necessitated by Hong Kong's looming reversion to Chinese sovereignty; a 1977 protocol, negotiated by Britain on Hong Kong's behalf, was due to expire in 1997.

The new air services agreement needs China's approval but no problem is foreseen. A Cathay executive said China had not rejected any air services agreements, but that formal ratification of some had been delayed because of differences between London and Beijing over Hong Kong's political development.

Mr Edward O'Donnell, chief US negotiator, said the agreement would provide stability for US carriers and open up significant new opportunities, especially for US cargo carriers.

The fifth freedom rights to the Philippines should be especially welcomed by Federal Express, which uses Subic Bay in the Philippines as its hub for cargo in east Asia.

UK looks to Qian to lift HK spirits

Simon Holberton reports on the British agenda for China's foreign minister

Mr Qian Qichen, the Chinese foreign minister, arrived in Britain yesterday for the first visit by a senior Chinese politician since 1992. He holds meetings with UK officials today with only 638 days to go before Hong Kong reverts to Chinese sovereignty. Much remains to be done.

Although the British Foreign Office has been damping down expectations about concrete results from the visit, this was no more than natural caution and usual practice.

In truth, it has high hopes that the visit will result in enhanced Sino-British co-operation and the Foreign Office is wheeling out just about every elder statesman it can – Lords Callaghan and Howe and Baroness Thatcher – to underline the point.

This is especially so in view of China's plan to establish a Preparatory Committee to make ready for its resumption of sovereignty. Britain fears that, without close co-operation with this body and the senior officials it will select for the post-1997 government, Hong Kong could face a chaotic run-up to handover.

"We are committed to co-operating with the Preparatory Committee and we want to explore ways of doing that," said one Foreign Office official.

Mr Qian's visit comes nearly three years to the day that Governor Chris Patten unveiled his package of proposals for political reform in Hong Kong. This was an event of seismic proportions in Sino-British relations, further poisoning a relationship already dogged by mistrust and suspicion.

It is no accident that the foreign minister's visit comes after and not before last month's Legislative Council (LegCo) elections, conducted according to the Patten blueprint. China never agreed to these plans. As Mr Qian pointed out in New York on Saturday, the political structure Mr Patten erected will "cease" with British administration on June 30 1997, and will be replaced by one more in accord with Chinese desires.

Coming after the polls, Mr Qian's visit enables both sides to look forward, without visible obstacles. A weaker Hong Kong economy and a convincing win in the elections for pro-democracy candidates also argues for unity of purpose, rather than continued bickering.

Indeed, British ministers do not plan to dwell on the LegCo elections. "That's something to talk to them about closer to the transfer," a British official said. This is in marked contrast to Mr Patten who, in the past three days, has twice reminded China to take note of the September 17 poll.

As he said yesterday: "It doesn't make sense to exclude the men and women that Hong Kong votes for."

Mr Martin Lee, chairman of the Democratic party, the largest group in LegCo, has made it clear he intends to challenge some of the government's core beliefs, even though, in a gesture to the business community, he sugar-coated the pill by calling for a 0.5 percentage point cut in Hong Kong's corporate tax rate to 16 per cent.

In arguing for more spending on health, education, housing and social welfare Mr Lee said he could see no reason why the government should limit growth in real spending to growth in the economy as a whole.

It is difficult to predict how China will react to Mr Lee's lobbying. In advance of Mr Qian's visit, Beijing has praised co-operation with the UK and Hong Kong governments in technical areas of the handover, while pointedly ignoring Mr Lee's victory in the polls.

Against this backdrop to Mr Qian's visit, Britain hopes to make headway on two main issues:

■ Co-operation with the Preparatory Committee. For this to have an impact, the UK believes that members of the committee will have to have direct contacts with Hong Kong government officials.

One model of co-operation could be the presidential handover in the US. For two months there, administrations overlap and jobs are all but shared. "That clearly would be the ideal situation to reach," an official said.

■ Consultation on the civil service.

A year ago China demanded that the UK hand over the personnel files of senior Hong Kong Chinese civil servants, including details of nationality. Mr Patten refused, claiming much of the information China wanted was not kept on official files.

Officials have taken heart from a cooling in China's rhetoric on this issue in the past six months, and hope Mr Qian does not push it. Indeed, in New York he repeated his view that a stable civil service was vital for a trouble-free transfer of sovereignty.

"It turns on how far we can go down that track, given civil service morale. The answer is: not very far," observed the British official.

Britain would also like some progress on other issues, such as the development of Hong Kong's container port, now stalled because China objects to Jardine Matheson's participating in its ownership, and the issue of changing Hong Kong's written laws to bring them in line with the colony's change in sovereignty.

See Editorial Comment

China is prepared to hold a summit in New York, rather than Washington, to ensure a meeting between Chinese President Jiang Zemin and US President Bill Clinton, Mr Qian Qichen, Chinese foreign minister, said yesterday, Reuter reports. "The Chinese side accepted a US invitation to President Jiang to visit Washington, but the US side seemed [to be] having difficulties in arranging the trip as a state visit," the Xinhua news agency quoted Mr Qian as saying.

Washington was pressing China at the weekend to agree to a summit on its terms after three senior-level meetings this week failed to resolve a snag over how much pomp the Chinese leader would be accorded.

"For the Chinese side there are no difficulties. And if the US side does have difficulties, a summit meeting in New York will do. This is what we have in mind," Mr Qian said.

US officials say the problem centres on style, not substance. The Chinese have been pushing for a formal state visit, but Mr Clinton rarely hosts such events and many believe he would open himself to criticism if he embraced Beijing too warmly. The US has offered a working visit, which it often stages for its closest allies.

Economic harmony eludes Koreans

By John Burton in Seoul

North and South Korea have failed to agree on improving economic co-operation, after four days of talks in Beijing which ended at the weekend.

Seoul has demanded that North Korea guarantee the return of a South Korean fishing boat, captured in May, if it wants to receive further emergency supplies of rice. South Korea also said that senior North Koreans should make a formal request for the rice aid, which Pyongyang regards as a humiliating gesture.

The prospects for future meetings between the two Koreas remain uncertain after South Korea demanded that subsequent talks should be held regularly and that they should take place on the Korean peninsula rather than in Beijing.

Seoul's demand is meant to establish a precedent for renewed political dialogue between the two Koreas, which has been a key diplomatic goal for South Korea.

The government is under domestic pressure not to make concessions to the North without gaining some advantages. South Koreans were angered after Pyongyang interfered with South Korean ships carrying some of the 150,000 tonnes of emergency rice supplies to North Korean ports this summer.

The temporary seizure of one aid ship and the forced hoisting of a North Korean flag on another led to criticism of the Seoul government.

Meanwhile, North Korea has begun a new round of negotiations in New York with the US-led international consortium which will provide Pyongyang with new light-water reactors.

North Korea is demanding that the reactor contract be signed by October 21, the first anniversary of the accord under which the US agreed to arrange the supply of the reactors in return for North Korea abandoning its suspected nuclear weapons programme.

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Brittan to seek closer EU-US relationship

By Guy de Jonquieres

Sir Leon Brittan, the European trade commissioner, will today urge EU foreign ministers to support the principle of a far-reaching initiative to strengthen transatlantic political, economic and trade relations, despite apparent US hesitation and reservations in several EU capitals.

Sir Leon hopes the EU and the US can agree in the next two months an action programme, to be approved by President Bill Clinton, Mr Jacques Santer, the EU Commission president, and Mr Felipe González, Spain's prime minister, at a December 3 summit in Madrid.

However, only modest progress was made towards that goal at a meeting of Commission and State Department officials in Washington late last week, at which EU negotiators presented a long list of proposals for closer co-operation on security, international law enforcement and economic and trade policy.

Though the two sides agreed that any future action programme should cover these areas, they endorsed no specific proposals. The US, which submitted a shorter working paper than the EU, is also said to have been notably less enthusiastic about discussing firm plans for action on trade.

The EU has proposed that the two sides implement ahead of schedule tariff cuts agreed in the Uruguay Round of trade negotiations and spearhead a broader move by selected members of the World Trade Organisation to promote further liberalisation of trade.

The EU also wants the two sides to conduct a joint study on the possibility of creating a transatlantic free trade area. However, US officials said they were not ready to do more than discuss existing trade barriers and to tackle problems as they arose.

The US ascribes its reticence partly to the limited involvement of its senior trade policy-makers in the talks so far. However, Mr Clinton also lacks trade negotiating authority and appears reluctant to launch any new trade initiatives before next year's presidential election.

EU members are also divided over how far to go on trade. Though Britain, Germany and some other northern European governments are interested in the idea of a free trade area, France and most southern member states are openly suspicious of any proposal which would affect EU trade policies.

US and EU officials, who are to meet again in Brussels this week, have agreed to push for closer co-operation in matters such as mutual recognition of product standards, combating terrorism and drug trafficking, and possibly environmental policy.

Warning on W Europe's pirated business software

By Sheila Jones

Nearly two-thirds of all packaged business software in western Europe has been copied illegally, according to the Business Software Alliance, which represents the world's biggest software producers.

The report, produced by Price Waterhouse, estimates that almost 60 per cent of packaged (as oppose to custom-built) business software is pirated in western Europe, compared to about 35 per cent in the US. It would cost western European businesses at least $10bn if they had paid for the pirated software.

Mr Robin Burton, the BSA's European affairs director, says he believes harsher penalties in the US have helped to reduce piracy there. "In the US, there is a statutory damages law. For every copy made illegally, there's a $25,000 fine – that's a big deterrent." There also appeared to be more willingness in the US to enforce the law. "In Europe, a lot of people still don't see it as theft, partly because they are physically not taking anything."

The BSA wants EU states to make software piracy a criminal rather than a civil offence, so stiffer penalties can be imposed. It is also trying to persuade EU states to enforce existing legislation more rigorously, particularly harmonised regulations such as the EU Software Directive and the World Trade Organisation accord on trade-related aspects of intellectual property.

The BSA study estimates that cutting piracy in Europe to US levels in the next five years would create almost 87,000 jobs and generate $2.3bn in extra tax revenues.

One cause of the levels of piracy in Europe is that managers do not account for software as assets, says Mr Burton. "The majority of illegal copying is done within corporations and large companies. A lot of it is ignorance – nobody is managing it and they don't treat it as an asset. Ask a purchasing manager how many chairs are in the company and he'll tell you, but he'll probably have no idea how much software the company has."

Revenues in the packaged business software industry are growing by 13 per cent a year, and will reach $43.7bn by 1997. The industry contributed $4.4bn to western European government revenues last year, and accounted for more than 170,000 jobs, the report says.

● *Contribution of the Packaged Business Software Industry to the European Economies. BSA Europe. Leconfield House, Curzon Street, London W1Y 8AS.*

US textiles consumption booming

By Jenny Luesby

Rapid growth in Asia may have been fuelled by the clothing and textile industry but, when it comes to demand for shirts, skirts and trousers, the gap between east and west is still growing.

In the last five years, consumption of the fibres used to make textiles has jumped from 25.9kg to 30.9kg a head in the US, according to a recent report by Textiles Intelligence and the Economist Intelligence Unit.

The 5kg difference, equivalent to nine pairs of trousers, or 25 shirts, includes textiles used in home furnishings and manufacturing, but it has taken Americans far beyond the 25kg a year previously analysed as the saturation point for textiles consumption.

In Europe consumption has risen from 18kg to 19.5kg a head, but it has pulled further ahead of the most successful Asian economies.

In east and south-east Asia, total fibre consumption rose by 0.8kg (five T-shirts) to reach 5.5kg a head, while in China consumption was up just 0.5kg to 6.0kg a head.

This is despite the fact that China and Asia,excluding Japan, now produce half of the world's textiles and clothing, compared with 40 per cent five years ago.

Textiles Intelligence predicts that the gap in consumption will continue to widen into the next millennium, as will the shift in production, with Asia processing between 80 and 90 per cent of each new tonne of additional world output.

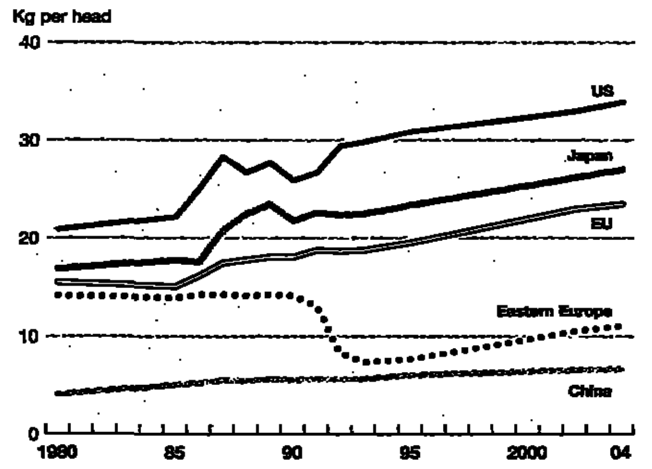
The one exception will be eastern Europe and the former Soviet Union, where it predicts a recovery from the fall in demand and production that took hold in 1992. In the CIS, textiles production, accounting for 10 per cent of world output in 1990, is half that now, and consumption is down from 14.8kg to 7.5kg a head.

Textiles Intelligence forecasts that this will rise to 10.5kg a head by 2004.

On this basis, and helped by population growth in developing countries and a higher saturation point elsewhere, the unit predicts accelerated growth in world demand for textiles over the next 10 years, taking world demand to 51.5m tonnes by 2004, up 28 per cent on 1995 levels.

● *World Textile and Clothing Consumption: Forecasts to 2004, by John Coker. Textiles Outlook International, September 1995, Economist Intelligence Unit, PO Box 200, Harold Hill, Romford, Essex, RM3 8UX. £95/$195*

Patterns in textile fibres consumption



Source: Textiles Intelligence

Japan resists US pressure on imports

By William Dawkins in Tokyo

Japan is sticking to its tough line against US trade pressure and has refused to negotiate over its alleged barriers to imports of wood and paper.

This is the second such blank refusal from Japan in three months, following its decision in July to ignore a US request for negotiations on the Japanese photo film market. It is a mark of the defiant stance underwritten by Mr Ryutaro Hashimoto, new leader of the Liberal Democratic party.

The reaction was triggered by a US decision last week to single out alleged trade barriers to Japan's wood and paper markets for study with a view to possible retaliation, for the second year running. Japanese trade practices in these sectors have been listed for monitoring under the US Super 301 trade law, allowing for sanctions. They were earmarked for further monitoring in an annual report to Congress by the US Trade Representative.

Mr Hashimoto said Super 301 was inconsistent with World Trade Organisation rules and called the US decision "regrettable".

Imports make up nearly two-fifths of Japan's annual wood consumption. But the US argues that remaining tariffs, designed to protect the remnants of Japan's timber industry, still keep prices too high. Consultants cited by the American Chamber of Commerce in Japan estimate that tariffs and other barriers deprive foreign companies of between $1.8bn and $3bn annual sales.

The Japanese paper market is far less open to imports. Foreign penetration is around 4 per cent, the ACCJ estimates, which it argues is a legacy of high tariffs, a closed distribution system and tight relations between suppliers and customers. Both markets, Japan argues, are open to all-comers.

WORLD TRADE NEWS DIGEST

Korean builders win more orders

Several domestic building disasters have not prevented South Korean construction companies from gaining overseas orders, which climbed 16 per cent to $5.25bn during the first nine months of this year. International orders are expected to reach $8.2bn for the full year, according to the International Contractors Association of Korea.

Speculation that overseas orders would be affected by the collapse of the Sampoong department store in June and a Seoul bridge collapse last autumn has not been confirmed and Korean construction companies generally enjoy a good reputation abroad, where they are subject to tighter inspection standards than in Korea. Lax inspections and cost-cutting building practices have been blamed for shoddy construction and the resulting disasters in Korea.

South-East Asia has become the biggest market for Korean builders at $3.75bn for this year, with Malaysia the single biggest customer at $1.24bn. Europe and the Middle East follow at $603m and $501m respectively. *John Burton, Seoul*

Seoul train decision denied

Mr Lee Heon-seok, South Korea's assistant minister for construction and transport, has denied reports that the government has decided to select a domestic supplier over foreign contractors for trains that would operate on a second proposed high-speed rail line. Mr Lee had been quoted as saying the government would prefer a domestic supplier because it would save money and enhance Korea's industrial self-sufficiency.

The ministry is not expected to complete planning on the proposed rail line between Seoul and the south-western port of Mokpo until next year. The issue of whether to seek bids from foreign train contractors has not yet been decided, according to a ministry spokesman. *John Burton*

Argentine drug patents move

Argentine legislation protecting pharmaceutical patents will come into effect from the year 2000, following the ratification by Congress of a "corrective law" bringing the date forward from 2003. President Carlos Menem, under pressure from Washington, sent the corrective law after Congress passed legislation judged by the US to contravene the General Agreement on Trade and Tariffs. Aside from trimming the phase-in period from eight to five years, the corrective law incorporates Gatt language on circumstances in which "compulsory licences" for a pharmaceutical product can be issued without the patent-holder's consent. Washington has threatened to put Argentina on a its 301 watch-list should satisfactory patent protection not be implemented. Argentine nationalists say Mr Menem has bowed to US pressure and passed legislation that will damage local industry and triple pharmaceutical prices. *David Pilling, Buenos Aires*

■ Coca-Cola said Vietnam had given investment licence approval to its Coca-Cola Indochina unit for a $48.8m joint venture in Ho Chi Minh City. The venture will more than quadruple the production capacity of Coca-Cola products in southern Vietnam to 136m litres. *Reuter, Hong Kong*

■ AirTouch Communications of the US said its cellular venture in Madras had been inaugurated, making it one of the first cellular operators in India, and the first in Madras. The company, RPG Cellular Services, received its licence less than a year ago. AirTouch and RPG Enterprises have also applied for a cellular licence in Madhya Pradesh, a region with about 70m people, as well as other regions. *Reuter, San Francisco*

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IMF crisis plan draws on Mexican lesson

By George Graham in Washington

The International Monetary Fund has agreed on a new set of procedures for handling emergencies such as Mexico's financial crisis.

Executive directors representing the IMF's member countries adopted the procedures, which set out ways for the Fund management to consult them when faced with a sudden crisis, as a first step towards establishing an emergency financing mechanism.

"The two important words are 'emergency' and 'mechanism', because there is no financing there. The financing will come later," said a senior IMF official.

In the wake of the Mexican crisis, when the IMF broke all its rules on how much a single country may borrow with an unprecedented $17.8bn (£11.4bn) loan, some international financial officials argued for a special facility to be set up as a safety net for other countries which might face the same kind of liquidity squeeze.

Some countries argued that the IMF should consider building this facility into a sort of international bankruptcy court, where sovereign countries could negotiate orderly debt workouts with their creditors – who are no longer a relatively narrow group of banks, as in the debt crisis of the 1980s, but a disparate array of bond investors.

But the IMF is now heading towards a solution that relies closely on its existing structures to provide it with the funds it might need for a future crisis.

Instead of a separate facility, attention is focused on ways of doubling the size of the General Arrangements to Borrow, a $29bn credit line on which the IMF can draw from several of its richer members.

The Group of 10 leading industrial nations, which supply most of the current GAB, is expected to agree next weekend on an outline offer to other countries which might contribute to a parallel credit line, although several variations are still under consideration.

"One way or another, there will be an expansion of the GAB," said Mr Stanley Fischer, deputy managing director of the IMF. In the longer term, the Fund and its members are also considering a quota increase, roughly equivalent to an issue of new equity.

The new procedures recently agreed by the IMF board, meanwhile, are expected to avoid a repetition of the friction between Fund management, the US and the European countries which marred the Mexican crisis.

European finance ministries complained bitterly that they had been presented with a *fait accompli* by the IMF and the US, and quarrelled with both the size and the immediate disbursement of the loan offered to Mexico.

Even with new procedures, however, smooth consultation may be difficult when, as in the Mexican crisis, a decision is needed overnight. "There really was no time. Countries are right to think they should be consulted; on the other hand, there was no time to consult them," said Mr Robert Rubin, US Treasury secretary.

EU and US clash over Mideast bank

Questions are being asked about the bank's economic justification, writes **Roula Khalaf**

When Egypt, Israel, Jordan, and the Palestinian Authority last year proposed a development bank for the Middle East and North Africa, the US was so pleased with the new spirit of regional co-operation that it quickly endorsed the idea.

However, although equally impressed with the political significance of the move, the majority of European Union members questioned the economic justification for the project.

After nine months of discussion and examination of the issue, a multinational taskforce is expected to report its findings to next month's regional economic summit in Amman. However, most Europeans on the taskforce are not convinced of the need for the bank.

As positions have stiffened, the US and countries in the region say they are prepared to go it alone. But as the US is billing itself as indispensable in the quest for Middle East peace, and images of President Bill Clinton flanked by Middle Eastern leaders are still fresh in many minds, this threatens to portray Europe as a lesser champion of peace.

EU members – with the exception of Greece, Italy and the Netherlands – argue that the Middle East is already served by several lending institutions, including the World Bank, the African Development Bank, the European Investment Bank, the Arab Fund for Economic and Social Development (a development bank for Arab countries) and the Islamic Development Bank.

They also note that the size of the proposed bank – a mere $5bn (£3.2bn) with 25 per cent paid in capital – would make its yearly lending less than the $1bn the EIB alone is likely to lend to the region in that time.

Furthermore, most of the bank's lending is not expected to be at concessionary rates, and thus will be of little use to national projects in countries which can borrow at below-market rates elsewhere.

The proposed charter for the bank envisages only a voluntary special fund to finance feasibility studies at concessionary rates.

Scepticism over the proposed bank is shared by several Arab Gulf states, partly out of fear that they will be asked to contribute to the funds but also out of concern that the institution is being set up before a comprehensive peace agreement is reached.

EU members have instead proposed the establishment of the Middle East and North Africa Financial Intermediation Organisation (Menafio), which would include a forum for regional economic co-operation and provide a framework for co-ordinating economic policies and identifying regional projects to be funded by existing institutions.

This idea has found support among World Bank officials – although the US has politely asked them to stay out of the debate after the bank last year published a white paper calling for the establishment of a body, modelled on the Organisation for Economic Co-operation and Development.

The World bank says it lent about $1bn to the Middle East and North Africa last year but has the capacity to increase its portfolio by another $2bn. "It is the availability of good projects to finance that is lacking," says one bank official.

European arguments, however, seem to have fallen on deaf ears. In addition to not wanting to snub those requesting tangible benefits for regional peace, the US insists that the bank will not duplicate the work of existing institutions.

It will have a specific mandate to fund private sector and regional infrastructure projects and act as an investment bank which ensures that the majority of projects are co-financed through both the private sector and the existing development institutions. "It is a catalytic, fast-moving investment house, lean and market-oriented," says a US representative.

"From a purely strategic point of view, if this region is to have a permanent and just peace, you have to have an institutional framework to bring parties together," adds Mr Raouf Saad, the Egyptian deputy assistant foreign minister. "From a practical point of view, the region needs a development institution which will be close to the region, know the countries and be able to mediate between the parties."

In June, European countries proposed to set up the intermediation facility as a first step and decide on the need for the bank within two years. The US and regional parties, however, said the two-phased solution was only acceptable if it involved a clear commitment to the bank.

At the same time, at the July meeting of the taskforce, the US made it clear that it had won enough backing for the project, including support from Japan and Canada. "It was put very plainly to us that they have a critical mass and they can do it alone," says a European official. Several taskforce members then moved to complete the bank's articles of association and Egypt and Jordan began competing to locate the bank in their capitals.

When the taskforce met again in September, the majority European view was that Europe would not sabotage politically the bank's creation but that each country should be given the choice of joining Menafio, the bank or both, and that the two institutions could be announced at the Amman summit. European officials say they are hoping to reach a compromise on some form of a two-phased solution when the taskforce meets again at the end of this week.

"We are in a terrible situation," confides the European official. "The European community is keen that any decision being taken is not interpreted as anti-peace because the EU is the biggest provider of funds to the region."

See Editorial Comment

Robert Rubin: 'the stakes are very high'

Rubin cool on risk of budget cataclysm

By George Graham and Jurek Martin in Washington

The possibility of a US default on its international commitments as a result of its protracted budget negotiations is "unthinkable", according to Mr Robert Rubin, Treasury secretary.

Treasury and Federal Reserve officials monitoring bond spreads had not yet seen indications that the financial markets were seriously concerned about the risk, he said. "I also don't think it's helpful to have people in positions of responsibility talking about default."

Mr Rubin reflects the administration's confidence that a budget cataclysm can be avoided, and that agreement can be reached on a course that ultimately eliminates the budget deficit. "There is very substantial political commitment, the stakes are very high," he said.

President Clinton this weekend signed into law a continuing resolution allowing continued government spending until November 13, after current funding expired with the end of the fiscal year on Saturday.

However, the budget picture remains confused. Congress has completed only two of the 13 appropriations bills which fund government operations, and which are normally finished before the start of the fiscal year. Mr Clinton has signed neither.

Work on the other 11 bills was thrown into disarray on Friday when the Republican rank and file in the House of Representatives, who have shown tremendous party discipline, rebuffed their leaders by rejecting compromises crafted with the Senate on defence and interior spending.

The government is also expected to hit the current $4,900bn (£3,161bn) legal limit on its debt at roughly the same time as the continuing resolution will expire in mid-November. With Congress and the administration each seeking to make the other back down, the possibility that the debt limit might not be increased had raised fears of a default on US payment obligations.

INTERNATIONAL NEWS DIGEST

Sheikh guilty of terror war

A New York jury yesterday found Sheikh Omar Abdel Rahman guilty of leading an Islamic war of urban terror against the US. Eclipsed by the Oklahoma City bombing and the OJ Simpson trial, the sedition case against the blind Egyptian cleric and nine co-defendants has lasted eight months, with testimony by some 210 witnesses.

After 37 hours of deliberations the jury found the sheikh guilty on five counts of conspiracy. He is due to be sentenced in January and faces life imprisonment. His nine co-defendants were also found guilty on various charges.

The case rested on the prosecution's claim that, between 1989 and 1993, the sheikh oversaw planning of a "war of urban terrorism" against the US which included the February 1993 bombing of Manhattan's World Trade Centre – which killed six people and injured more than 1,000.

In March 1994 four men were convicted of the bombing and were sentenced to life sentences. *James Whittington, Cairo*

Oman and Israel bolster ties

Oman and Israel have agreed to boost economic co-operation, the Omani news agency said yesterday. The decision, the first by a Gulf Arab state, was taken by the two countries' foreign ministers in New York. Oman was the only GCC state and one of only three Arab League members not to sever ties with Egypt when it became the first Arab state to sign a peace accord with Israel in 1979.

The GCC – which groups Oman, Saudi Arabia, Kuwait, the United Arab Emirates and Bahrain – supports the Middle East peace process, but has been reluctant to forge normal ties with the Jewish state until a comprehensive peace agreement, including Syria and Lebanon, is reached.

Last year, bowing to US pressure, the GCC agreed to ease the Arab boycott of Israel and lifted the secondary and tertiary boycotts against companies that deal directly or indirectly with Israel. *Roula Khalaf, London, and Reuter, Dubai*

Algerian bus attack kills 18

An attack on a civilian bus in southern Algeria yesterday left 18 people dead and 15 wounded, according to the official Algerian news agency. The attack in Laghouat, about 400km south of Algiers, was one of the deadliest against civilians in more than three years of violence.

According to Algerian newspaper reports, a car bomb explosion on Saturday near a complex housing security officers in Tipaza, 60km west of Algiers, killed two people and wounded 10. Over the weekend, the central committee of Algeria's National Liberation Front, the former ruling party, reiterated the party's opposition to presidential elections planned for November 16, but stopped short of calling for a boycott. *Roula Khalaf, London*

Mass Egyptian trial opens

A controversial military court convened on Saturday outside Cairo to try 49 prominent members of Egypt's largest opposition movement, the Moslem Brotherhood, accused of plotting against the government. The defendants had been rounded up over the past nine months in a crackdown by the government against members of the Brotherhood. Critics claim that the move is aimed at removing the Brotherhood's most popular leaders, who were planning to stand for parliamentary elections in November.

The government, however, says it has evidence that they were trying to revive an "illegal group" and has accused the defendants of forging close links with militant Islamists and the Islamic government in Sudan. The hearing was adjourned until 14 October. *James Whittington*

SEC to act over Orange County

The US Securities and Exchange Commission has informed some of the bond firms involved in several Orange County deals that it intends to recommend enforcement action against them. Orange County declared bankruptcy on December 6 1994, after suffering investment losses estimated at $1.69bn (£1.09bn).

The SEC has targeted several taxable note deals sold by local school districts and cities. SEC staff are recommending that the SEC files actions in federal court for violations of federal anti-fraud rules. Municipal bond experts said the SEC was focusing on whether the municipalities disclosed accurate financial information about the bonds and the purpose for the bond sales. *Reuter, Santa Ana*

World Bank 'greening' loans

The World Bank has provided $10bn (£6.4bn) in loans to 137 environmental projects in 62 countries, according to a report assessing its operations since the 1992 Rio Earth Summit. The projects focus on pollution management but also include water treatment, support for new technologies and building capacity for environmental management.

The bank says it is also "greening" its operations by applying environmental planning and management to its lending, which will total an estimated $200bn over the next 10-15 years. Mr Andrew Steer, director of the bank's environment department, said that lending policies were increasingly geared to striking a better balance between economic development and environmental sustainability.

Mr Steer said that some of the bank's lending was bound to be bad for the environment, particularly large infrastructure projects. But often the impact would be offset by other improvements. *David Lascelles, Resources Editor*

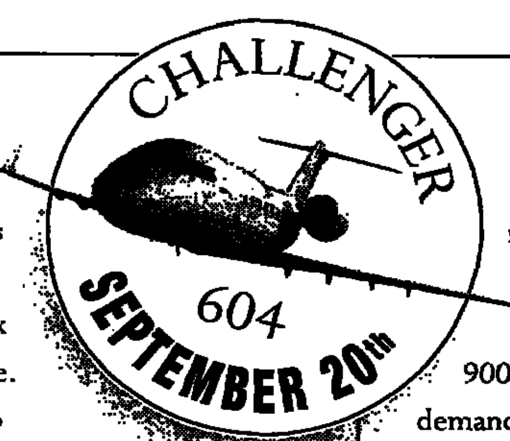
Mainstreaming the Environment. Available from the World Bank, 1818 H Street NW, Washington DC 20433. USA.

Alcan unions demand pay rise

Unions representing 4,000 Alcan Aluminium workers in Quebec are demanding an increase of almost 15 per cent or C$3.26 (£1.53) an hour in pay and benefits in a three-year contract with the company. The old contracts expired last spring and since then negotiations have moved slowly.

The unions say the previous contract held wages down artificially because of the recession. Alcan said it had offered almost 6 per cent in pay and benefits over three years, plus other incentives, bringing the total package to 11.4 per cent or C$2.29 an hour. *Robert Gibbens, Montreal*

HOW THE NEW CHALLENGER 604 PASSED EVERY FLIGHT TEST WITH FLYING COLOURS, INCLUDING THE TEST OF TIME.



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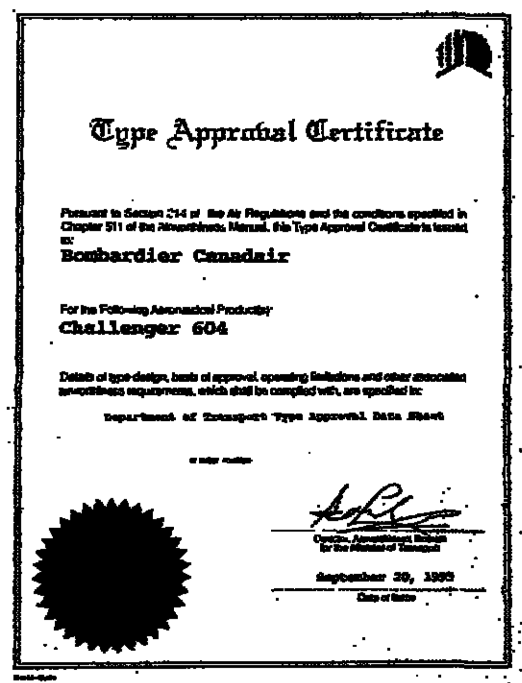

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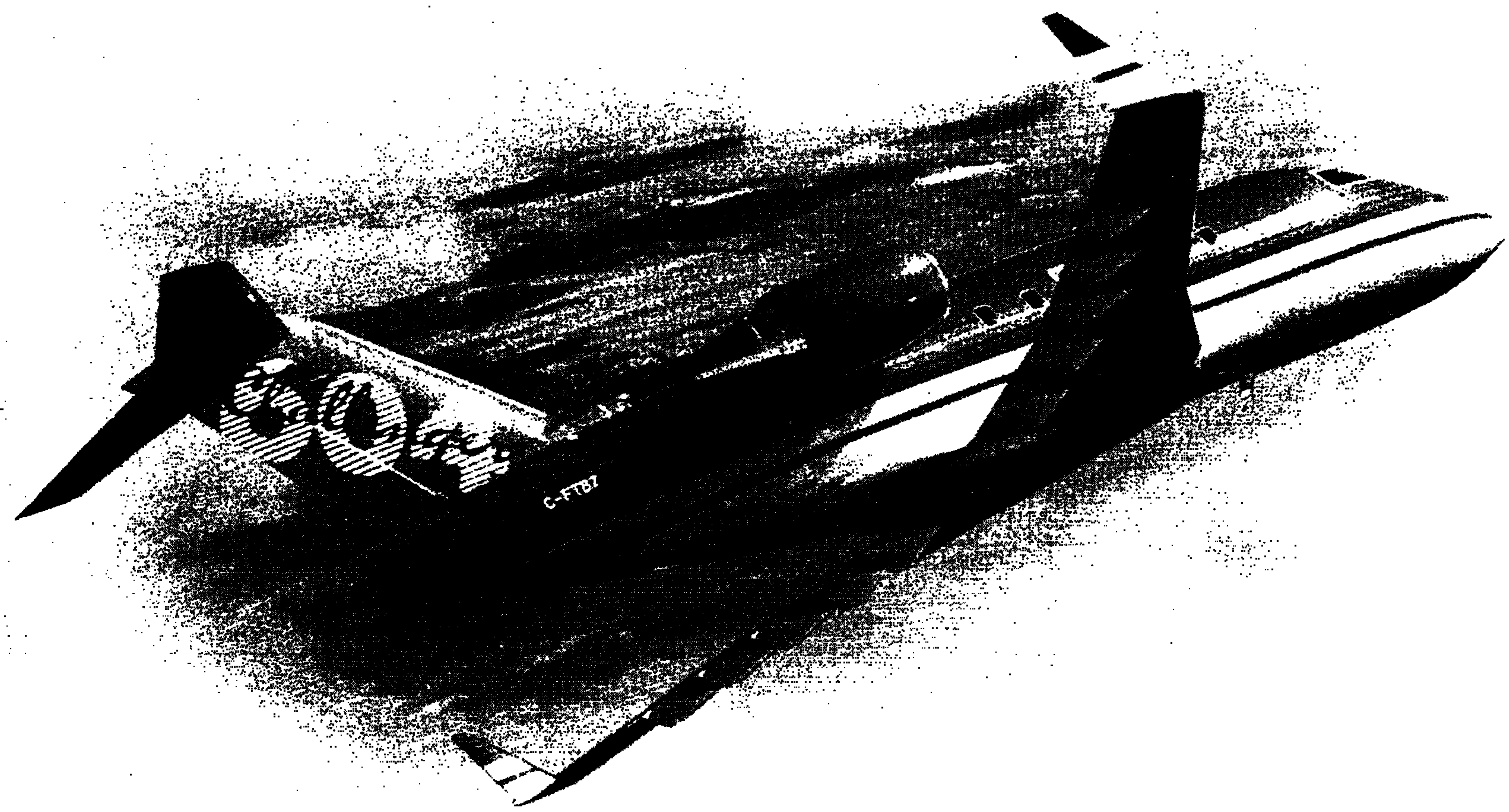

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Government 'could reap broadcast bonanza'

By Raymond Snoddy

Selling the spectrum now occupied by Britain's broadcasters for mobile and other telecommunications uses following a move to digital transmission could be worth £2bn ($3.1bn) a year to the government, according to a new study published today.

The money could come from an auction of released spectrum. In the US, the Federal Communications Commission has estimated that the analogue spectrum, if released from broadcasting use would be worth $37bn.

The estimate of the spectrum worth to the British government is made by Convergent Decisions Group, consultants specialising in digital communications issues, and is contained in an independent report that is highly critical of government proposals for the introduction of digital terrestrial television (DTTV) and the eventual move away from existing analogue transmission.

Government proposals envisage that DTTV will be able to offer more than 20 channels of high quality digital television in most parts of the country. They do not however set a date for the end of analogue transmissions and broadcasters have also criticised the proposal that organisations, which need not be broadcasters, will apply for blocks of digital frequencies or multiplexes.

CDG criticises Britain's National Heritage department for the lack of a strategy for the transition from analogue to digital and the "severe practical implementation problems" with the multiplex provider concept.

Mr Dermot Nolan, technical director of CDG argues that: "The lack of detail in the proposals combined with the inherent complexity of many crucial issues may seriously jeopardize the introduction of DTTV in the UK. This will discourage the participation of media players."

The consultants fear that there is simply not enough incentive for existing broadcasters in the Government proposals to encourage them to promote digital take-up by their viewers. The existing broadcasters are to get enough spectrum to broadcast their existing channels in digital. Eighty per cent of the content must be the same as their present channels and they must be free to air.

● The British Broadcasting Corporation is likely to be able to keep a significant proportion, and possibly even most, of the money raised from the privatisation of its transmitter network.

The government is now finalising the details of what could be a £100m privatisation and an announcement is expected as sson as possible after October 16 when parliament returns after the summer recess.

The privatisation announcement will come at the same time as the details of the new BBC's Royal Charter are published.

The government has repeatedly made it clear that the status quo is not an option for BBC transmitters even though the corporation has argued that an integrated organisation is more efficient and privatisation will increase costs.

Opposition set for blitz on unemployment

By Robert Peston, Political Editor

Britain's opposition Labour party will today announce plans for a three-pronged attack on unemployment, with the creation of a new careers opportunity service and measures aimed at young people and the long-term unemployed.

Mr Gordon Brown, the shadow chancellor, will make the party's first firm spending commitment since it lost the 1992 general election, with a proposal to spend £1bn ($1.56bn) in the first year of a Labour government on employment and training for an estimated 700,000 people under 25 who have been out of work for more than six months.

However, in a speech today to Labour's annual conference at Brighton, he will resist widespread pressure from Labour activists to soften his commitment that the control of inflation should be the primary economic goal.

"With a Labour government, there will be no inflationary booms, no massaging of figures, no quick fixes, no short cuts, no pay explosions and no shopping lists of irresponsible commitments," he will say.

On taxation, Mr Brown will promise "fairness through a progressive tax system". He will pledge that millionaires who shelter their income will pay "their fair share of tax".

Mr Tony Blair, Labour's leader, says in the Guardian newspaper this morning that any decision to raise the top rate of income tax will be made and announced before the general election.

Mr Brown will unveil proposals for a nationwide network of career bureaux, linked by computers, so people facing redundancy can retrieve up to the minute information on job and training opportunities, support services, such as child care facilities, and the availability of state benefits.

He will also put flesh on his plan to use the £3bn proceeds of a windfall tax on the utilities to reduce unemployment among people under 25. "Our objective is nothing less than to abolish youth unemployment," he will say.

Mr Brown's advisers estimate that the package will cost £1bn after deducting savings from reduced benefit payments in the first year, £400m in its second year, and a zero net cost after five years.

"We have checked these figures with government officials", said a Labour policymaker. "We think they are pretty robust."

The leadership fears, however, that the conference may pass a resolution fixing a £4.15 minimum wage, against current party policy.

Sources of information used by foreign-owned companies

	Agency(s) used (%)
Individuals now employed	47
Accountancy firms	42
Law firms	41
Banks	32
Industry contacts	23
Any government dept/ office	31
Local authority	20
Local development agency	13
Chamber of commerce	10
None	21

Source: KPMG

Cashing in: foreign banks in London

Start of the 1960s	75
1975	250
1985	380
1993	514

Source: London Economics

Choices for European headquarters

Site	Nationality of parent company (%) US	Japan	EU	Non-EU	Overall
UK	56	32	11	24	28
Germany	7	41	33	6	18
Netherlands	6	2	14	3	8
France	6	0	13	3	8
Switzerland	1	0	0	5	5
Sweden	0	0	1	4	5

Source: London Economics

City 'helps lure inward investors'

By John Plender

The financial skills of the City of London are becoming increasingly important in attracting inward investment, as services replace manufacturing as the chief component of direct foreign investment.

This is one of the main conclusions of a report by the consultancy London Economics, commissioned by the Corporation of London.

The report calls for inward investment agencies in the UK to broaden the range of services and incentives they offer to cope with increased competition in a fast changing market for direct foreign investment.

It criticises the agencies for producing data that fail to reflect the growing importance of mergers, acquisitions and joint ventures in total inward investment. And it identifies a need to attract projects which incorporate high value added service activities.

The changes in trend revealed by the report are marked. Between 1984 and 1991 the share of service industries in the total stock of direct foreign investment in the UK rose from 25 per cent to 43 per cent. The share of manufacturing over the same period fell from 41 per cent to 34 per cent.

The report emphasises that the thrust of inward investment has shifted away from new projects on greenfield sites. Expansion by existing investors, together with investment via mergers and acquisitions, are making an increasingly significant contribution.

Between 1987 and 1992 the value of net foreign flows to the UK arising from mergers and acquisitions was more than £33bn ($52bn) at current prices. London Economics estimates that this accounted for between 40 per cent and 50 per cent of the total value of inward investment in the period.

While the figures are influenced by the exceptional nature of the takeover boom of the late 1980s, the consultants argue that they reflect a fundamental shift in the way companies seek to service markets outside their home country.

The existence of an active market in corporate control gives UK and US investment banks a competitive edge in facilitating the growth of cross-border deals, the report claims. UK banks are also said to derive strength from being involved in fewer conflicts of interest in the mergers and acquisitions market than their competitors in continental Europe.

More than a fifth of total FDI inflows between 1984 and 1991 were in the finance, insurance and business services sectors. The report argues that the "clustering" of financial and professional services in the City acts as a draw to inward investment.

Among the contributory factors are the presence of multinational firms' treasury operations in London and the quality of professional services in the City.

Mr Michael Cassidy, chairman of the City Corporation's policy and resources committee, said that the corporation intended to explore the City's role in the wider economy with politicians at the forthcoming political party conferences.

UK NEWS DIGEST

Bipartisan stance on Irish peace 'intact'

Labour leaders made it clear last night that the opposition party was not shifting its policy on Northern Ireland in spite of a motion likely to be endorsed by this week's conference which does not explicitly call on the IRA to hand in weapons. But, with growing concern at the menacing statements of the IRA and Sinn Féin, its political wing, both government and opposition strategists are hinting that a more flexible approach is needed to kick-start all-party negotiations.

A Labour motion due for debate by delegates on Thursday ispotentially embarrassing as it omits any reference to decommissioning.

Yesterday the Ulster Unionists indicated a willingness to tackle the issue on the eve of today's meeting in Dublin between their leader Mr David Trimble and Irish prime minister Mr John Bruton. UUP deputy leader Mr John Taylor said unionists were not seeking the physical handover of IRA weapons but could "proceed on the basis of making these firearms unusable again".

John Kampfner and John Murray Brown

Gas field plans 'unaffected'

The steep decline in UK gas prices will not affect the development of Britannia, the UK's largest undeveloped offshore gas field, according to its operators. The field, 130 miles north-east of Aberdeen, is being developed at a cost of £1.3bn to supply about 7-8 per cent of the UK market.

According to Mr Jeff Tetlow, deputy managing director of Britannia Operator, sufficient gas has been presold under contract to ensure the viability of the project. "There are no issues between ourselves and the purchasers," he told a press briefing. He declined to say how much of the gas had been presold or on what terms. The purchasers are Kinetica, Mobil Gas Marketing, National Power and Total. The recent fall in gas prices has been caused by the opening of the wholesale market to competition. *David Lascelles*

'Golden handshakes' down

High-flying executives are getting smaller pay-offs when they crash to earth, according to a survey yesterday. Their average severance pay-off is now 3.1 weeks for every year of service, compared with 4.1 weeks in 1989.

But the well paid British executive is still at about the half-way place in the international league table – well ahead of counterparts in the US where the average pay-off is 1.2 weeks. Executives in Venezuela lead the table with an extraordinary 21.3 weeks for every year, although these figures are based on small numbers. The survey, by career consultants DBM, is based on the 10,000 executives internationally to whom it gave counselling last year. *Press Association*

Distillers want duty cut

Scotch whisky distillers have asked the chancellor to cut excise duty on their products by 8 per cent in November's Budget as a first step towards taxing all alcoholic drinks at the same rate. The industry joins the annual chorus of beer, wine and spirits producers seeking a break from the government – pleas which have fallen on deaf ears before. The Scotch industry says it is unfair their product is taxed at almost twice the rate of other drinks, and all drinks should be taxed at the same rate on their alcohol content. *Roderick Oram*

FT's 10 7/16 inch-wide guide to metrication

Yesterday saw the implementation of measures which help to complete the adoption of the metric system in the UK. How come the Brussels' bureaucrats have managed to pull another *fast one* on an unsuspecting British public?

Metrication may have been thought up in 17th century France but it's a *little unfair*, despite the existence of two inescapable EC directives, to blame faceless Europhiles across the Channel for killing off the imperial system.

Thirty years ago UK business first lobbied the government to convert to metric in the interests of increasing world trade. Common market membership was still a twinkle in Ted Heath's eye. Since the early 1970s, the metric system – legal in Britain since [illegible] and used throughout the rest of Europe and most of the industrialised world – has been phased in. The remaining changes, taking effect now and in 2000, were announced in 1994.

So it's *farewell*, then, to the foaming pint, the 70-miles-per-hour speed limit and those rolling acres?

Not at all. Government insistence means that some of Britain's most familiar accoutrements will remain at her disposal without time limit, and woe betide anyone who tries to pull a litre of Old Peculiar for Norman Tebbitt; a pint of shandy, however, will be illegal because it is classified as a soft drink. Pubs will sell "large" or "small" shandies.

What, then, exactly is changing?

About 80 per cent of all "common groceries" – including instant coffee, tea, breakfast cereals, canned and frozen foods, pre-packed fruit *and* vegetables – are already sold primarily in metric measures (it's a long time since a half-pound pack of butter or two-pound bag of sugar was exactly that). From now on, nearly all goods sold *by* quantity not already traded in metric will also be included.

Principally, we are talking about food pre-packed in variable weights, involving everything from pork chops to cod fillets and cheese.

The exceptions will be goods sold loose from bulk by the pound and ounce – primarily foods, such as meat, poultry, cheese, fish, fresh fruit and veg. They, too, must convert by 2000, when it will be goodbye to a pound of sausages or tomatoes. Ministers may scoff at the idea that in five years' time it will be illegal to ask for a pound of apples – but it will be against the law to sell one.

Anything else changing?

Though the mile, yard, foot and inch will still suffice on the road, metres only will do in the drapery store or when buying electrical flex. But a 16¼-inch collar and a *29½-inch inside-leg size will* not be frowned upon as they are considered to be descriptive measurements which do not represent "a risk to trade"; same goes for "quarter-pounder" burgers and 16-ounce steaks.

Confused?

Every previous stage of the metrication process has been achieved without confusion or disruption to business or the general public, claims the Department of Trade and Industry. It says there will be plenty of conversion charts giving unit prices per kilogram and their imperial equivalents, along with lots of dual pricing; people can, and no doubt will, simply carry on asking for imperial quantities, leaving retailers to weigh out and charge for the metric equivalent, though making it clear that is what is being sold.

Some businesses, mainly smaller ones, beg to disagree and predict utter confusion. The Federation of Small Businesses calls the changeover "madness", blames the government for not allowing enough time to make the transition and *claims the bill for changing tills*, price lists and literature will be horrendous. The DTI, which delights in quoting from a 1992 federation letter which welcomed the *proposals*, says that with 162,000 businesses so far having converted to metric, the average cost per company is running at £200. Tell that to J Sainsbury, which puts its own bill at more than £1m.

So where does all this leave the shopper?

Younger ones should be alright, given that metrication has been taught in schools since 1974. But life may be trickier for others, witness a recent metric conversion quiz in which mystified entrants gave John Major a height in metres equivalent to more than eight feet. Worse, Joan Collins was converted into a fragrant 12.5 stone.

As for the threat of unscrupulous spivs indulging in the sort of rip-off which followed decimalisation, the Institute of Trading Standards Administration, representing 2,000 trading standards *officers*, warns shoppers not be caught out by "camouflaged prices rises".

Watch out in particular for "downsizing". Baked bean manufacturers have already been accused of reducing the size of their tins but not their prices. The *big supermarket chains* say they are going to great lengths to explain the changes to consumers and deny they will be used to sneak through price rises.

Neither will garages any longer be obliged to display metric conversion charts for those who insist on knowing what they are paying for a gallon. Motorists certainly show no inclination to start asking how many miles to the litre they can expect from their new cars.

What are the penalties if traders ignore the law?

Trading standards officers promise a "softly-softly" approach and, in fact, there have been no prosecutions for failing to use metric or imperial units where required since penalties were first introduced in the early 1970s.

A successful prosecution, however, could lead to a maximum fine of £5,000. By the year 2000, when metrication is complete, there may be no such thing as the pound sterling. But therein lurks a much bigger controversy.

Michael Cassell

Charm and the embassy

DATELINE

Washington: the effective ambassador is not necessarily the most visible, writes Jurek Martin

He will probably blush if he reads this over his diplomatic croissants in Paris, but this subjective opinion holds that Peter Dyvig of Denmark was the best ambassador sent to the US by any foreign country in the 1990s.

Now hold on, the professionals might say in shock. It is not as if US-Danish relations have ever been big news, even in Copenhagen let alone Washington – unlike Britain's with the US, in both capitals, over Bosnia and Northern Ireland, or Japan's over trade conflicts beyond number.

Nor, they might go on, is it fair to compare a modest Dane with genuine foreign policy luminaries like Sir Robin Renwick and Takakazu Kuriyama of Britain and Japan respectively, both of whom worked their difficult briefs ferociously hard. So undoubtedly, if with varying effect, did the ambassadors of France, Germany, the EU, and Italy, to name only four of those recently departed or about to leave.

(Indeed, the current turnover is so large that it is as well that newcomers do not have to present their credentials to Jesse Helms, chairman of the senate foreign relations committee. Having held the confirmation of 30-odd US ambassadors hostage, he would probably conclude that if there were fewer foreign ambassadors here the state department would not need so many bureaucrats to deal with them.)

Still, why Peter Dyvig? One reason is that the most effective ambassadors anywhere are not necessarily the most visible. In Washington embassy parties are the warp and woof of politics and social life, as well as providing the locals with something approximating a nightlife. Renwick certainly demonstrated this with a vengeance, once producing at dinner for a perfectly ordinary British home secretary one-third of the US supreme court, the attorney general, the heads of the FBI and CIA, Bill Clinton's two senior White House counsel and more.

Boris Biancheri, the experienced and elegant Italian ambassador *with one of the most gorgeous residences* (Villa Firenze) in town, can also pull them in with a purpose. So, whenever he is around flashing his wealth, can Prince Bandar of Saudi Arabia, but he has always moved in exalted Republican circles, as well as on the racquetball court with Colin Powell

Our noble Dane did his bit on the entertaining front without the same splash and probably without the financial resources as others. Americans with Danish connections – Janet Reno, the attorney general, Steny Hoyer, the Democratic congressman from Maryland – were regular guests, but so, it was noticed, would be a gaggle of middle level bureaucrats and congressional aides who actually write policy and legislation for their bosses, not the worst people from whom to get information.

A second reason is that an ambassador does not have to be from a Very Important Country to earn respect. About 10 years ago, the Economist published a list of the best ambassadors worldwide, a pretty presumptuous exercise. But it got one of its top ten dead right in identifying Sergio Gonzalez Galvez, then, and again later, Mexican ambassador to Japan. More interesting, if not well known and bilingual, Japanese politicians and civil servants could be found at Sergio's table than dining with the diplomatic representatives of the Group of Seven combined.

Thus it is a standard foreign correspondent's technique to seek out those diplomats not so consumed with bilateral crises and causes that they cannot get a grasp of what is really happening in the country in which they reside. Personal experience shows that the Canadians generally rank highly when not bothering about durum wheat, as do the Australians, the Dutch and the Danes, as Dyvig showed. In Washington, the new breed of post-communist eastern European ambassadors is well worth probing, like Michael Jantovsky of the Czech Republic - but, then, he was a journalist before the Velvet Revolution brought him to Havel's side.

Most ambassadors to Washington, *where language should not be* a problem, are career appointees at the top of their profession. But sometimes they are chosen for domestic political or patronage purposes or because their masters feel they would fit well with whomever is ruling the roost in the land of the free.

But there are pitfalls in the second route. One of David Owen's worst judgments as British foreign secretary was to instal Peter Jay as ambassador in 1977 on the grounds that a brilliant young thing would be far more attuned to the tender Turks of the incoming Carter administration than Sir Peter Ramsbottom, the ageing old Etonian incumbent. It simply did not work, even on the tennis court unless Zbigniew Brzezinski was on the other side of the net. In fact it took Sir Nicholas Henderson, himself a quasi-political appointee but a career diplomat more cut from the Ramsbottom social mould, to restore an even and productive keel.

Sir John Kerr, the latest British arrival, will do well here and not just because of his diplomatic skills or the generous welcoming profile in last week's parish newsletter, the *Washington Post*. After all, like Peter Dyvig, he smokes.

PEOPLE

Aura of the ideal general singles out Krol at DuPont

Tony Jackson forecasts only a slight change in the company's chemistry


Premium on continuity: Jack Krol

When Mr Jack Krol takes over as chief executive of the US chemicals giant DuPont in two months' time, he does not expect any radical change in the company's style or direction. That is the kind of thing bosses-in-waiting usually say, if only in deference to their departing predecessor. In Mr Krol's case, there seems no reason to doubt it.

Mr Ed Woolard, DuPont's chairman and chief executive, announced *last week that he is to* assume the role of part-time chairman at the relatively young age of 61, after 38 years with the company. Like Mr Woolard, Mr Krol, 58, has spent his working life with DuPont, barring a four year stint in the US Navy after college.

While Mr Woolard was an industrial engineer by training, Mr Krol is a chemist.

Even his Navy experience turned out of direct relevance to DuPont, since he trained as a nuclear engineer – a field which, by his own account, has much in common with chemical engineering.

His experience during the past 32 years with the company seems in some respects rather narrow. The first 23 years were spent with the fibres division, which makes artificial fibres such as nylon (a DuPont invention).

Then came four years running the agricultural chemicals division; *then a couple of years back in* charge of fibres; then appointment as vice chairman in 1992. In all that time, he has not been posted outside the US.

His time at the agricultural division coincided with an episode which causes DuPont trouble to this day: the launch of a pesticide, Benlate, in a new granular form. The product was *hastily* recalled in 1991 after apparent damage to crops, and the episode has cost DuPont several hundred million dollars in compensation to date.

But, like Napoleon's ideal general, Mr Krol is blessed with luck. By the time he arrived at the division, the product had already gone through its trials. By the time it was recalled, he had moved on.

His claim to management continuity is based above all on his three year stint as vice chairman.

When he arrived, DuPont was just beginning to tackle a sharp increase in global competition. The result was a programme which took out about 30,000 of DuPont's 140,000 workforce and some $3bn of annual fixed cost.

"I *was there from the opening* gun", Mr Krol says. "I was in at the beginning of the planning, as well as the implementation."

That phase of restructuring is now broadly complete – a fact which Mr Woolard gives as an important reason for his decision to step down.

What the restructuring did, Mr Krol says, was to provide a platform for profitable growth. Now comes the next phase.

"At the front of my mind now", he says, "is top-line growth". By that he means simply growth in revenue – which, given the fluctuations in both price and volume of DuPont's products in recent years, is not as straightforward as it sounds.

For the past two or three years, he says, the emphasis has been on reversing price declines.

That has happened with a vengeance across the entire industry, particularly in bulk commodity chemicals. Now the emphasis is on extra volume.

At the same time, he intends to *carry on raising productivity*. In US industry, that term means different things to different companies.

For DuPont, it means the ratio of fixed cost to sales. In the past three *or four years. Mr Krol says*, this has risen by about 6 per cent a year across the various businesses.

From here on, the pace may slacken slightly, depending on individual cases. But, he says, he would still like to aim at 5-6 per cent for the group overall.

Another important objective is for all the businesses to earn at least the cost of the capital they employ.

In 1991, Mr Krol says, only a fifth of DuPont's 20 strategic units achieved this.

This year the figure is closer to 90 per cent. This results partly from disposals.

It also owes much to the upturn in the chemicals cycle; and, as Mr Krol would *no doubt concede*, the test of the whole restructuring will come in the next downturn.

As for management style, Mr Krol and Mr Woolard come across as rather *similar*: considered in speech, downbeat in manner. "Ed and I have worked together for 25 years", Mr Krol says. "We're not that different."

Specifically, he says, they both put emphasis on people. Granted, they may have got rid of 30,000 of them in the past three years.

Nevertheless, he says, "we both understand that in order to win, we must have people who enjoy coming to work every day.

"And in the past three or four years, a major focus has been building a strong management team. We think we've got there."

NAMES IN THE NEWS

Kok recruits more men from the ministry

Bessel Kok, chief executive of TelSource, the Dutch/Swiss telecommunications alliance, is *getting something of a reputation* for his dawn raids, writes Vincent Boland in Prague.

In June, TelSource scooped 27 per cent of the Czech Republic's SPT Telecom, *after a high profile tender* battle, and it is one of only three groups shortlisted to take a similar holding in Belgacom, the Belgian telecoms operator Kok ran until last December, when he quit in a row over privatisation.

Now, Kok has swooped on the office of Czech industry minister Vladimir Dlouhy, luring two of his top officials to strengthen the marriage between TelSource and SPT, of which Kok is the newly-installed vice president.

The two new recruits are Radomir Sabela, Dlouhy's deputy minister, who is to advise Kok on international projects, and Kamil Cermak, chief of Dlouhy's press department, who will head SPT's external communications drive.

Sabela, a tough negotiator, is the man credited with the successful sale, earlier this summer, of a stake in the Czech refineries to a consortium grouping Agip, Conoco and Shell, while Cermak has been the architect of Dlouhy's positive media profile.

Kok may feel he and SPT need a little image enhancement. TelSource's first press conference after the SPT tender was a public relations disaster. Instead of trumpeting Europe's biggest telecoms deal, he was grilled by Czech journalists on his record at Belgacom.

The two latest defections are not the first from the relative backwater of the Czech civil service. SPT's chief executive, *Svatoslav Novak*, was brought in from the economics ministry to replace Jiri Makovec, who opposed the tender, in January.

Bernheim steps out into the limelight

It takes quite a bit to wring a public apology out of a banker, but Antoine Bernheim, general partner of Lazard Frères and new chairman of Generali, Italy's biggest quoted company, began his first press conference last week with two, writes Andrew Hill in Milan.

First, he was sorry he had to speak in French but "when I was appointed everybody knew I was French, not young [he is 70], and with no gift for languages". Second, he apologised for not talking to journalists after his appointment in June.

At the time, his comment that he did not know enough about the Italian insurance giant to talk about its future strategy attracted some ridicule, given that he has been a board member for 22 years and is deputy chairman of Mediobanca, the Milan merchant bank. "My response is that when you're a director of a company, you see the company from the outside and it's a little different once you're on the inside" - particularly if you don't speak Italian, he might have added.

That said, Bernheim was touchingly verbose at last week's press conference, although he admitted that he hated talking to journalists and that his worst months had been as chairman of Euromarché, the French retailer, when he was always having to handle insistent hacks.

If the policy of openness catches on, it could revolutionise the Trieste headquarters of Generali, a company which has made something of a habit of faxing out complex, half-legible press releases late at night, or on Friday afternoons, when most of the insurer's staff have already gone home.

Donaldson comes full circle with DLJ

'What goes around, comes around,' might be the phrase on William Donaldson's lips as he returns as a senior adviser to Donaldson, Lufkin & Jenrette, the brokerage house he co-founded in 1959, **writes Maggie Urry in New York.**

Back then, he and two other Harvard Business School graduates, Dan Lufkin and Richard Jenrette, pooled $100,000 to establish the firm, which concentrated on providing in-depth equity research to institutional investors. It is still regarded as a strong equity house, although it is outside the top tier of investment banks.

Donaldson, now 64, left DLJ in 1973 to become undersecretary of state in the Nixon administration, and moved on in 1975 to found Yale's graduate school of management, remaining there as dean until 1980.

He spent much of the eighties running a private investment company, Donaldson Enterprises, where he is still chief executive, but was diverted in 1990 when appointed as chairman and chief executive of the New York Stock Exchange for five years until June this year.

Another circle will be completed when DLJ is floated once more, some time this autumn. During his first period with DLJ he oversaw its transition to a quoted company in 1970, the first NYSE member firm to go public. DLJ was taken over by The Equitable, the insurance group, in 1985.

In August it filed a registration statement *with the Securities and* Exchange Commission outlining a plan to sell up to 20 per cent of DLJ's shares to the public. Having a former head of the NYSE as an adviser will no doubt help.

FILMS/VIDEO

■ *Pocahontas* fever is spreading through Britain from John O'Groats to Gravesend: the latter soon to be the busiest *tourist site* outside Stratford, as last resting-place of the Indian princess (pictured right).

Reports that she is turning in it are a cruel fabrication of Disney's detractors.

In the studio's newest animation feature, we get songs, rivers, buffaloes, mountains, more songs, plus enough ethnic correctness to leave the studio unpicketed until the next millennium. The takings of *Pocahontas* at the box office to date are $140m (£90m), which as sages point out can be doubled since none of the actors, being painted, is on a percentage.

There is no Indian princess in Ken Loach's *verité-styled Land And Freedom*: only a Spanish *compañera* (Rosana Pastor) in love with a Liverpudlian volunteer (Ian Hart) as Spain's civil war begets a war-within-war between Leftist factions. Loach brilliantly evokes the panic as the small anti-fascist militias are outmanoeuvred by the Stalin-sponsored International Brigade.

Elsewhere, it is mayhem-without-tears as usual. Sylvester Stallone strides through *Assassins* looking bigger and bulgier than ever; one bulge no doubt *being his* $17m pay cheque. Sandra 'Speed' Bullock races through the disinformation superhighway, as a damsel in techno-stress, in the thriller *The Net*.

■ On video, it is women's week. Jennifer Jason Leigh is an acquired taste as Dorothy Parker in *Mrs Parker And The Vicious Circle*. But do enjoy *Disclosure* with career woman Demi Moore devouring demotion-peeved Michael Douglas. And warm to the year's best female ensemble playing – Winona Ryder, *Susan* Sarandon and company – in Gillian Armstrong's radiantly filmed *Little Women*.

Nigel Andrews

MUSIC

■ You have to feel sorry for Grieg's Piano Concerto in A Minor; having suffered a mauling at the hands of Morecambe, Wise and maestro *André "Preview" all those* years ago, it is now tackled by Dudley Moore and put together with a number of wicked parodies from Moore's *Beyond the Fringe* days on a new EMI release.

But Moore's performance of this classical "warhorse" – "what are warhorses if not there to be ridden?", he asks – is no joke, and rather well-played. The parodies are a delight, including the Schubertian "Die Flabbergast", and a Beethoven-style "And the same to you".

The Norwegian trumpeter Ole Edvard Antonsen and British organist Wayne Marshall mark their forthcoming Royal Festival Hall concert on October 26 with an album of popular classical pieces including Jeremiah Clarke's "Trumpet Voluntary" and transcriptions from Bach and Telemann (EMI). The concert promises to be more eclectic, with works by Gershwin, Shostakovich and Charlie Parker.

Boombastic (Virgin) is the debut album from fast-rising reggae artist Shaggy, the title track of which has already achieved cult status thanks to a characteristically witty Levi's advertisement on British television.

The trouble is, that track is by far the stand-out song on the album, although a collaboration with rapper Grand Puba on "Why You Treat me So Bad" is never less than interesting.

In brief: John Eliot Gardiner and the Monteverdi Choir perform Handel's oratorio *Israel in Egypt* and include the two coronation anthems "Zadok the Priest" and "The King Shall Rejoice" (Philips).

Peter Gülke and the Wiener Symphoniker attempt to rehabilitate the work of Franz Schreker with a live recording of his opera *Irrelohe* (Sony).

Peter Aspden

MANAGEMENT

Strategic alliances are becoming increasingly popular but the drawbacks are many, explains **Vanessa Houlder**

Today's friend, tomorrow's foe

Businesses have long blurred the boundaries between competition and co-operation. In the US and Europe, cartels carved up important markets for much of the century; in Asia, companies have long been bound together by cross-shareholdings. But in recent years, companies have been collaborating on an unprecedented scale.

Joint ventures, licensing agreements, collaborative research, technological exchanges and marketing alliances have never been so fashionable. Just 750 of them were formed in the US throughout the 1970s, but now US companies form thousands every year.

The top 1,000 US firms now draw nearly 6 per cent of their revenues from alliances, a fourfold increase since 1987, according to consultants Booz-Allen & Hamilton*. It argues that this inexorable drive to alliances "amounts to a new chapter in the evolution of free enterprise".

In the past, alliances tended to be merely tactical – for instance, enabling a company to achieve its sales objectives for individual export markets. But today's strategic partnerships are often more far-reaching in their scope.

The impetus for the growing number of strategic alliances is intensifying competition, faster technological change and the increasing global nature of markets which have left companies unable to do everything for themselves.

Through co-operation, a company can break into new markets, obtain access to new technologies and get economies of scale more quickly than by itself – and more cheaply than it can buy them in a takeover.

For some industries, the urge to collaborate is particularly intense. Europe's heavy engineering and defence industries are banding together to cope with shrinking markets and to overcome national barriers to takeovers. Across the world, the airline industry – which wants to build a larger web of routes and get around national restrictions – has established more than 400 deals in the past few years.

The pharmaceutical industry, which needs access to innovative research and to build market share for products, has clocked up thousands of deals. The communications industries, faced with convergence of technologies, have announced a spate of alliances.

So why does this headlong rush into strategic alliances provoke such cynicism – particularly in the US? A survey by Booz-Allen and others found that just 17 per cent of US managers thought they were effective and 31 per cent thought they were dangerous.

The problem does not lie with the potential rewards from strategic alliances. Studies by consultancies Braxton Associates** and Booz-Allen have shown that the companies most active in forging strategic alliances produce returns 50 per cent higher than those of other large companies.

Rather, the problem is that alliances often fail. The Braxton study showed that the superior returns from strategic alliances are matched by equally heightened risks. Moreover, the returns enjoyed by beginners are, on average, half as good as those of experienced companies, according to Booz-Allen. Most alliances are temporary affairs – although not too much should be read into statistics that show their median life span to be only seven years. Many satisfactory alliances are disbanded once they have outlived their purpose.

Failure can carry a heavy price. Managers are often loath to transfer to a joint venture because they know the risks of losing their jobs if the venture fails. More generally, alliances can lead to the release of valuable information to competitors or even give potential competitors easy access to home markets.

Many alliances are doomed from the start. In a recent article in the Harvard Business Review, Joel Bleeke and David Ernst of McKinsey, the consultancy firm, argue that companies' choices of partner are often flawed. It is tempting, for example, to believe that it is better to partner a rival than compete with it. "When both partners want to expand their core businesses based on the same set of geographic and product opportunities, conflict is the rule, not the exception," they say.

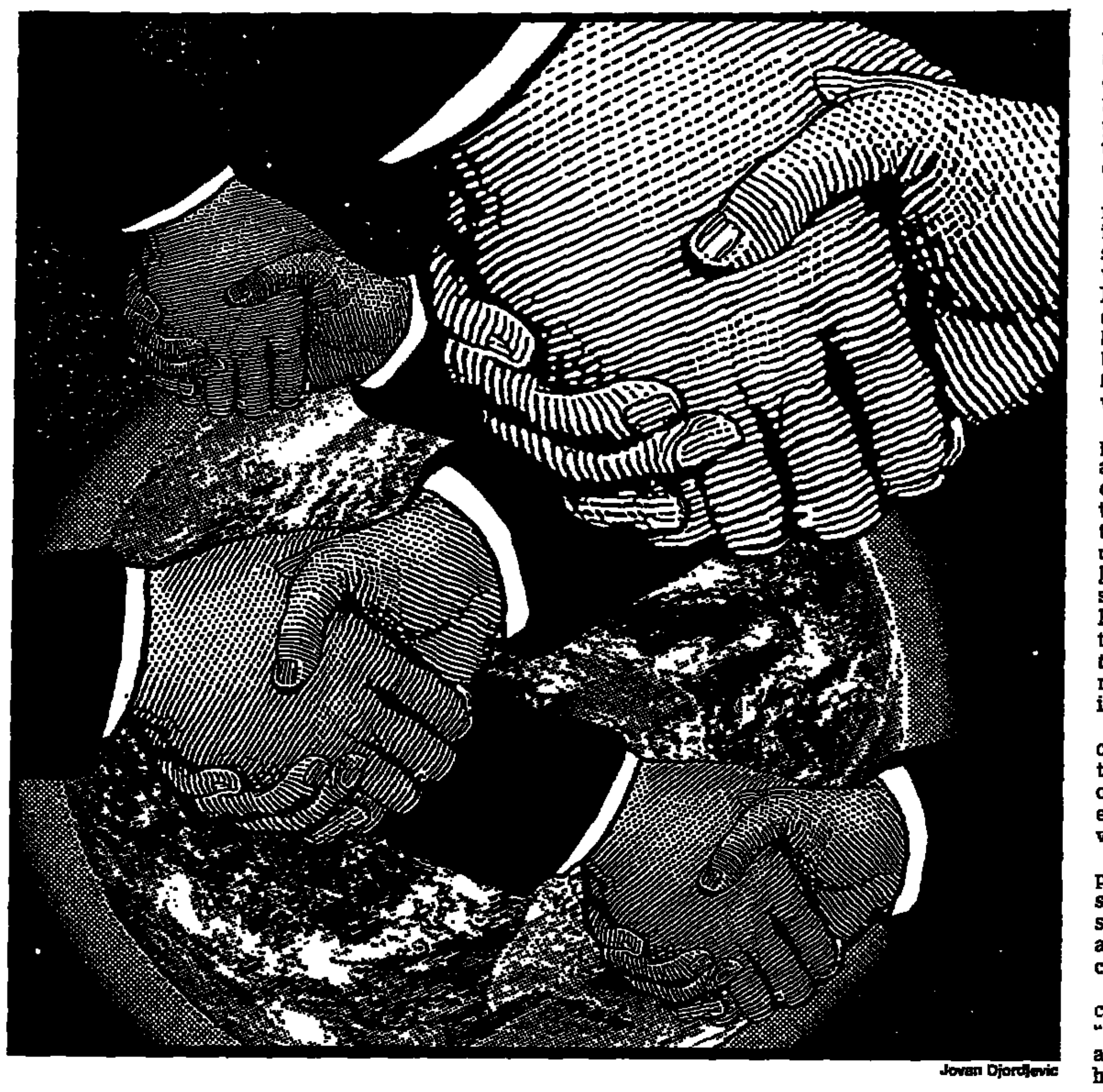
Another fallacy is that joining forces with another second-tier company will create a strong company. The problem is that both companies are likely to be too busy with their core businesses to invest sufficient management and time in the alliance. In the airline industry, large write-offs have resulted from deals involving weak players – for example, unprofitable US airlines and flag carriers of smaller European countries.

Teaming up with a stronger partner to improve skills or gain access to new technology or products is also risky. Usually the weak partner cannot contribute sufficiently to the partnership and is acquired by the stronger partner.

After the problems of selecting a partner and negotiating the deal have been overcome, the most serious problems are often in implementing a deal. That has proved a sore issue in the computer and electronics industries where – unusually – companies have not enjoyed increasing returns as they have become more experienced. The problem was that companies "were running around signing deals and not implementing them", says John Harbison, a partner at Booz-Allen.

"I do not believe that companies fail in the planning stage. They fail in implementation – that is the graveyard of corporate America," says Charles Knight of Emerson Electric, in a recent interview with the Conference Board**. "Implementation is the riskiest, most difficult and most time-consuming element of an alliance."

Chief executives usually cite leadership issues, cultural incompatibility and rapid changes in the business environment as the biggest causes of implementation problems.


Jovan Djordjevic

Alliances can be unwieldy and bureaucratic, with decision-making hampered by the constant need to refer back to headquarters. Long-established alliance-makers, such as Corning, the US multinational, insist the boards of joint ventures include the CEO or a director with decision-making responsibilities of one of the parent companies.

Cultural incompatibility is often a difficulty, particularly with international alliances. Last year, Corning unravelled the cross-ownership it had established with Vitro Group, a Mexican glass operator. "It became apparent that the cross-ownership and cultural differences were depriving both companies of the flexibility to take fast management action in the consumer business in both countries," says James Houghton, chairman.

The most obvious cultural differences faced by alliance partners concern attitudes to decision-making and funding. Pilkington, the UK glass company, has relationships with two Japanese companies which, although harmonious, demonstrate these different approaches.

"The more iterative process" used by their Japanese counterparts means that decision-making takes longer than usual, according to Roger Leverton, chief executive, in an interview with Kalchas, the management consultants***. Moreover, as the British companies do not have "the luxury of being supported by banks", the partners have a different approach to returns on investment.

But the degree of trust shared by the partners also varies. The importance of trusting a partner is emphasised by successful alliance-makers. "Trust is probably the single most important ingredient of a joint venture," says Houghton.

According to Tony Hales, chief executive of Allied Domecq, the international drinks company, it is important to get the legal framework right but then "you stuff it in a drawer" because "the relationship is what matters". He stresses that alliances have a social, as well as a commercial, element. "Drinking a bottle of Ballantine's together once a year is important."

For the most part, however, the Anglo-Saxon style of management is not conducive to trusting relationships with other companies. Writing in the Harvard Business Review last year, Rosabeth Moss Kanter, the US management theorist, took Northern American companies to task for their "narrow, opportunistic view of relationships, evaluating them strictly in financial terms or seeing them as barely tolerable alternatives to outright acquisition".

She argues that North American companies frequently neglect the political, cultural, organisational and human aspects of the partnership. Asian companies are the most comfortable with relationships, and therefore they are the most adept at using and exploiting them. European companies fall in the middle.

The skills with which Asian companies contemplate joint ventures often makes foreign companies feel at a disadvantage. Foreign companies are aware that ventures between Japanese and foreign companies operating in Japan are usually sold to the Japanese partner upon termination.

In part, the tendency for Japanese companies to buy out their partner can be attributed to their noted skills at learning and absorbing their partner's capabilities. In addition, the partner that controls distribution channels and customers often takes on an increasingly important role as the relationship progresses – unless the provider of the product can maintain complete control over the technology.

The changing balance of power is most obvious when it comes to ending an alliance. Usually, power shifts to the stronger partner, which ends up buying the other out. BMW's acquisition of Rover, Honda's long-time partner, was a notable exception: the decision of the UK company to take the better financial offer was initially greeted with disbelief by Japanese industry.

Opinions vary on whether the problems caused by ending alliances make it vital to insert exit clauses during the initial negotiations. Houghton does not favour them. He says they "spell failure . . . if we need to collapse it [the alliance] we will, but we do not start off with that as a viewpoint". However, Honeywell, the US controls group, believes it is important to agree to renew its alliance agreements every five years or so as "an informal escape".

Bleeke and Ernst go further. "It is critical for sellers to recognise that their bargaining power will decline over time and to negotiate explicit exit provisions that ensure fair value in the event of a sale."

They emphasise that nearly 80 per cent of joint ventures end in a sale by one of the partners. For one side of the partnership, alliances are an attractive, flexible and low-cost option on a future acquisition.

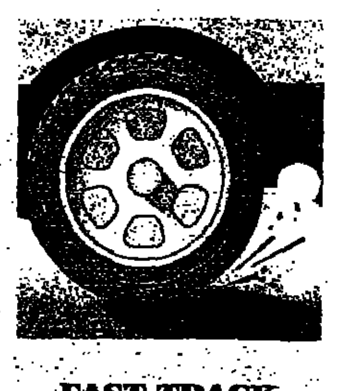
For the other side, however, it can lead to a cheap, unplanned sale. "If a CEO does not realise that the alliance will probably end in a sale, he or she may be betting the company without knowing it," say Bleeke and Ernst.

There is a dilemma at the heart of alliance-making. Trust, flexibility and commitment are widely seen as the keys to success. But companies dare not blind themselves to the risks involved. Today's ally may be tomorrow's competitor; a joint venture may turn out to be a takeover by the back door. For the growing number of companies engaged in alliances, ambiguity is a fact of life.

A practical guide to alliances, Booz-Allen & Hamilton, 5220 Pacific Concourse Drive, Suite 390, Los Angeles, CA 90045.

***Making International Strategic Alliances Work: The Conference Board Europe, Chaussé de la Hulpe 130; bte 11, B-1050 Brussels, Belgium. Price $100.*

****Strategic Alliances, Summer Bulletin 1995, The Kalchas Group, Summit House, 70 Wilson Street, London EC2A 2DB.*



FAST TRACK

Phonak

It was probably inevitable. Hearing aids will soon be renamed hearing enhancement systems.

That at least is the marketing strategy of a small Swiss company, Phonak, that has led the way in introducing miniaturised digital technology to hearing aids.

The advantage of digital technology is that it enables the installer to adjust a hearing aid for any number of small or large failings found in an individual's hearing capability.

The signal of any individual frequency can be strengthened or filtered and it can be delayed, if necessary, to prevent distortions. Tiny microphones can be pointed in a particular direction and different combinations of adjustments can be programmed into a remote controller to be used in different environments.

With conventional analogue hearing aids, the possibilities for adjustment are much fewer and less precise.

The key to Phonak's advance in this area has been a close association since 1982 with the Centre Suisse d'Electronique et de Microtechnique (CSEM), a research and development institute set up to support the recovery of Switzerland's watch industry. This co-operation has enabled it to develop tiny in-ear digital hearing aids – called hearing computers – that use one-volt batteries.

Andreas Rihs, Phonak chief executive, says it took the group eight years and SFr25m (£14m) to develop an integrated microchip for a hearing aid. Then it took another two years to develop a computer-based diagnostic system that enables the accoustician to assess a person's hearing with precision and programme the adjustments into the hearing aids.

The latest Phonak models are also stereophonic, which means that in many cases a person's ability to detect accurately the origin of a sound can be restored. Rihs argues this technology will transform the global hearing aid market, worth SFr6bn in retail sales a year.

At the moment, although a deterioration of hearing ability in middle age is common, most people resist doing anything about it unless the loss is severe. This is not just a reflection of vanity. Because the market is small, it is not as easy to find an ear specialist as, for example, an optician. Many ear specialists are also sceptical of conventional hearing aids, knowing their benefits are often limited.

Phonak is currently working on a fully digitalised system that will outperform the naked ear, notably by sharpening the reception of similar consonants.

A family-controlled company founded in 1947, Phonak's sales have nearly doubled to SFr125.7m in the year to March 31 1995 since the introduction of its Personal Integrated Communications System hearing computers in 1992.

Phonak claims to be the fourth largest supplier after Siemens of Germany, Starkey of the US and Oticon of Denmark with a 6 per cent market share. Technologically, it claims an advance on all its competitors, thanks to its CSEM connection.

The group was floated in December on the Swiss bourse and the shares have risen from an initial price of SFr535 to a recent SFr860, about 30 times expected earnings per share of SFr29 in the current year.

Ian Rodger

Learning to kick the overwork habit

LUCY KELLAWAY

All work and no play makes Jack a dull boy. It also makes him an ill boy, and messes up his family life. Long hours are a bad thing, we all know that. It is ridiculous that half the population slogs its guts out when the other half does not have a job at all.

Thus it was good to see the launch of the Long Hours Campaign last week. It was also good to see the likes of Howard Davies, deputy governor of the Bank of England, supporting it, and BP and Abbey National signing up.

The campaign is based on the notion that overwork is unnecessary – working long hours does not make us any more productive; indeed it may make us less so. The argument goes that if we can kick the habit as individuals, and if organisations can redesign themselves to become less macho, then overwork will be a thing of the past.

To that end the campaign – run by the Parents at Work pressure group – has drawn up some "action tips" for individuals and for organisations. Many of these are sensible, although easier said than done. We should try to work more efficiently. We should stop feeling guilty. We should learn to say no. At the same time companies should examine their macho cultures. They should do surveys of working practices. Bosses should set a good example by working shorter hours themselves.

The campaign culminates on June 21, which has been designated "Leave work on time day". I for one have been leaving work on time for some years now so that our nanny can also leave work on time, and I know that leaving work on time is a mixed blessing. A desperate rush to finish work on time is bad for the blood pressure, and an extra hour at work is more relaxing than a wild dash. However, the principle is a good one, and I fully expect to see Howard Davies leading his staff down the steps into Threadneedle Street at half past five one afternoon next summer.

My doubt about the campaign is that it is optimistic in its premise. Not all – and probably not even most – of the long hours worked are because we are either inefficient or trying to impress the boss by burning the midnight oil at our desks. Most people stay at work because there is work to be done. And if they do not do it, someone else will have to.

Indeed, if companies really want to tackle the hours problem they are going to have to get their cheque books out and rehire some of the people they have spent the last 15 years laying off. And it is not easy to see them doing that in a hurry.

Still on the subject of long hours, the male backlash I wrote about a couple of weeks ago seems to have already happened. "Men are entitled to balanced lives!" says the press release I have just been sent. The accompanying book (in which Howard Davies crops up yet again as the author of the preface) is a *cri de coeur* from men, who demand that they too should be able to spend more time at home. There follow some real-life accounts of this new species of male who works part time and in the rest of his time has discovered mountaineering, friends, not to mention families*.

In 1970 the typical director of Britain's largest quoted companies was male, 56, Oxbridge-educated and played golf. Twenty-five years later the average director is male, 56, Oxbridge-educated and plays golf. The only thing to change in the boardrooms of the top 200 PLCs – according to research to be published this week in Management Today – is how much directors get paid. The average pay in 1970 was £11,000 (worth £87,000 today), while in 1995 the figure is nearly £250,000.

It goes without saying that the composition of the board has changed a great deal – there are far more non-executives than there were in the 1970s, and this new breed contains the odd token woman. Otherwise the boardroom would appear to be identical, full of accountants topped with a thin sprinkling of MBAs.

Yet there is one thing that this research does not take into account – charisma. Today's directors seem much less colourful than those of 25 years ago. Where are the modern equivalents of Lord Weinstock, Lord King or Sir Denis Rooke?

The typical chairman or chief executive of the 1990s is bland and keeps a low profile – indeed, I would be hard pressed to name the bosses of most of the top 100 companies. BTR is a case in point: Elwyn Eilledge, the chairman hired last week, was described in this paper as someone who "rarely hit the headlines in 36 years spent climbing to the top of the accountancy ladder". Quite a change from Sir Owen Green, who continues to make the headlines with his outspoken views several years after he left the company.

**Balanced Lives: Changing work patterns for men. £9.95. Tel 0171-226-4026.*

BUSINESS EDUCATION

As the FT launches a new weekly page, **Tim Dickson** gives an overview

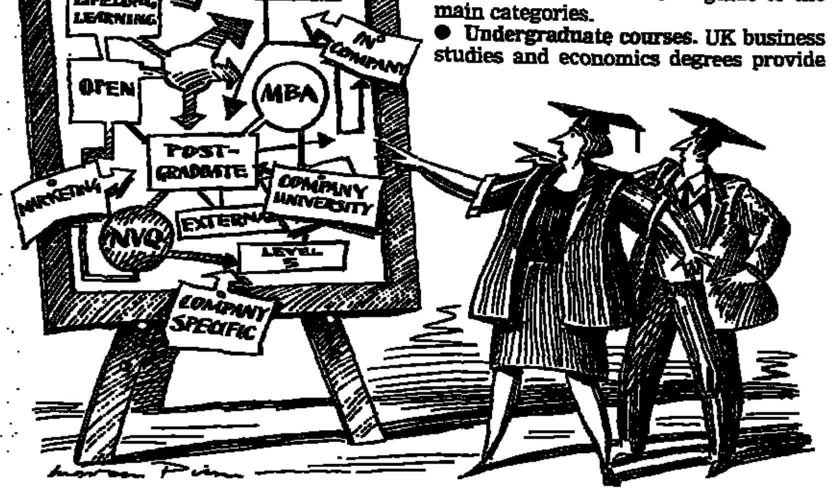
Welcome to business school

It is perhaps a touch ironic that when it comes to calculating the size of their own marketplace – an elementary first step in any industry analysis – business schools cannot convincingly practise what they preach. The management education sector is so fragmented, competitive and at times *opaque* these days that the sums involved are anybody's guess.

Everyone agrees the figure is large. In the US, for instance, the American Assembly of Collegiate Schools of Business (AACSB) believes about \$4bn (£2.5bn) of the \$51bn spent on training by *corporations* with more than *100* employees last year went to university-based business schools.

No equivalent figure is available for the European market, but the Association of MBAs estimates that Master of Business Administration tuition fee income in the UK is £140m a year, while the consultancy Harbridge House believes British companies spend £30m a year on *tailored in-company* programmes organised by "outside" suppliers.

Part of the challenge lies in tracking the different approaches to management education. Here is a guide to the main categories.



● **Undergraduate courses.** UK business studies and economics degrees provide some preparation for general management, but the undergraduate "model" is more widespread in countries such as Germany, Spain, Italy and France. In France, for instance, students at the 21 *grandes écoles* of management typically follow a five-year general management curriculum which starts immediately after the baccalaureate.

● **Post-graduate courses.** Of these the MBA is by far the most popular, producing around 75,000 graduates each year *in the US, more than 6,700 in the UK* and perhaps the same again in continental Europe. The MBA is aimed at students with at least three to four years' work experience seeking to *broaden their skills ahead of a career* change or a rapid move up the management ladder. The degree can be taken full-time (lasting one or two years, or something in between), part-time (involving evening classes, weekend study or extended periods away from work) or by "distance learning" (correspondence courses).

● **NVQs.** Although generally seen as a vehicle for improving standards of training in technical crafts and skills, National Vocational Qualifications are increasingly recognised as a useful tool for re-skilling middle management in the UK.

The system awards standardised qualifications to trainees once they have demonstrated specified levels of competence in the workplace. Five levels of NVQ are available, of which level three covers supervisory management, level four first-line management and level five middle management.

Training is available from a variety of providers (often with employer support) and assessment takes place at one of hundreds of approved centres in the UK.

● **In-company training.** Large companies have long operated in-house training centres for brushing up functional skills, but in-house management education is thought to be on a sharply rising trend. A particular feature of recent *years has been the development of* company "universities" (for example, at Motorola in the US and Unipart in the UK) – a reflection of the growing commitment to "lifelong learning".

● ***Externally supplied executive education.*** This has mainly been the preserve of business schools, and usually provides a much more healthy income stream for them than fees from MBA students. A bewildering number of courses is on offer – from shortish functionally based programmes in, say, finance or marketing, to longer general management sessions for middle- and senior-ranking executives.

An important distinction is between "open" programmes – open to all-comers and attractive because students get the stimulation of peers from other companies and other industries – and "company specific" projects run at a business school for a team or series of teams from a single enterprise.

A hybrid category – where programmes are tailored for a consortium of companies – tries to provide the best of both worlds.

NEWS FROM

CAMPUS

Insead launches fundraising drive

Insead, the international business school at Fontainebleau, near Paris, is seeking to raise FFr700m (£88m) of fresh capital from corporate donors and alumni over the next five years.

About 800 international guests – including more than half the school's first MBA class in 1960 – attended the fund-raising launch this weekend. *Antonio Borges*, Insead's dean, says the school needs the new money "to ensure that world-class learning and thinking can be *developed here in the future*". Insead relies on revenue from its programmes to fund new research – but with new ideas likely to be quickly copied by rival management education establishments, Borges says: "You can't capture the benefits of your investment in this area."

The Insead dean believes business schools must move away from "simply teaching" to developing new concepts and disseminating them to business. He says Insead's appeal – which has already inspired pledges worth more than FFr200m from Sandoz, Shell, Boston Consulting Group, bearings and steel group The Timken company, S.G. Warburg and British Petroleum among others – "will be the ultimate market test for what we do. Companies are not going to give us large sums of money for things they are not interested in".

Insead's initiative – which will increase from 10 to 20 per cent the proportion of its annual budget derived from endowment income – is also designed to establish a stronger European tradition for the private funding of business education. US schools are generally far better endowed than their European counterparts.

Global MBA gathers pace

A gathering trend in US business schools is the "global executive MBA" – global in content, student mix and course venues, executive in the sense that it is aimed at managers who do not want to leave their job. Michigan, Chicago and MIT are among those to have launched new programmes, with Duke University's Fuqua School of Business in North Carolina next in line.

Fuqua looks to be living up to its reputation as a small but progressive school. Residential classes will be held in Durham (North Carolina), Salzburg, Shanghai, Hong Kong and Brussels – taking up 11 weeks of the 19-month programme – but a large chunk will be delivered with the use of interactive technology. The first class enrols next June.

Tel (919) 660-8029; fax (919) 660-8044.

Reception for would-be students

At the last count 103 universities and colleges were *offering an MBA programme* in the UK alone. So how do would-be students choose the right school and best course?

One answer is to attend the business school reception in London due to be held at the Institute of Directors in Pall Mall on the evening of October 16. Organised by the Association of MBAs (AMBA), the event provides an opportunity to chat with representatives of more than 40 leading schools from Europe and the US. Admission is free but by pre-registration with AMBA.

Further information from Roger McCormick of AMBA, 15 Duncan Terrace, London N1 8BZ. Tel 0171-837 3375.

CONFERENCES & EXHIBITIONS

OCTOBER 5-6
Financial Engineering
For those with good knowledge of financial mathematics and main cash and derivative products, this course shows how to engineer financial products using case studies. Essential for users of structured products. Covers: Structured cashflows; Correlation - dependent products; Tranching in debt and equity issuance; Barrier options; CMO structures.
Contact: BPP Bank Training - John Vernon
Tel: 0171 628 8444 Fax: 0171 628 7818
LONDON

OCTOBER 10/11
Practical Foreign Exchange Trading
OCTOBER 17/18
FX & Currency Options
NOVEMBER 7/8
Derivative Products for Sales & Marketing
NOVEMBER 14/15
Practical Money Market Trading
2 Day courses at £495 + V.A.T.
TFL/Nicola Blackman
Tel: 0171 606 0084/600 2123
Fax: 0171 600 3751
LONDON

OCTOBER 10/11
Selling Skills for Treasury Staff
Practical training course introducing selling techniques to banks' and financial institutions' corporate dealers and customer services personnel. At the end of the course participants will be better placed to identify and understand their customers' needs and handle selling opportunities with confidence. £520 + VAT.
Contact: Lywood David International Ltd
Tel: UK 44 (0) 1959 565820
Fax: UK 44 (0) 1959 565821
LONDON

OCTOBER 11
Citicorp Investment Services
Citibank Farragut West Branch, Washington DC. Citicorp Investment Services invites you to attend a complimentary luncheon seminar Tax Intelligent Investing for Non-Resident Aliens (NRA'S) and G-4 Visa Holders.
Contact: John R. Austin Tel: (202) 429-8301 by Monday October 9, 1995
Reservations Required
LONDON

OCTOBER 11
Contaminated land - the implications of Section 57
This half-day CBI/EBF conference will discuss the implications of the fundamental shift in legislation on contaminated land due to the new Environment Act. Delegates will hear from the DOE about the political background to the changes, and the prospects for the future, nationally and internationally.
Contact: Nicola Martin, CBI Conferences
Tel: 0171 379 7400 Fax: 0171 497 3646
LONDON

OCTOBER 11
The Environment Agency: getting to know your new regulator
This half-day CBI/Environment Business Forum Conference will give delegates an early opportunity to hear about the Agency's mission and style from its new Chief Executive, ED Gallagher. Much of the impact on business will depend on decisions being taken now about its management and structure. From the strategic to the specific, every business will need to know what the new regulator will bring.
Contact: Nicola Martin, CBI Conferences
Tel: 0171 379 7400 Fax: 0171 497 3646
LONDON

OCTOBER 16
A Free Trade Area of the Americas by 2005?
Dr César Gaviria, Secretary General of the OAS, Ministers, officials and businessmen from Latin America, Europe and the US will examine the existing sub-regional trade groupings (NAFTA, Mercosur, Andean Pact) and prospects for the proposal hemispheric Free Trade Area.
Contact: Charles de Bunsen at Canning House Tel. +44 (0) 171 235 2303 Fax +44 (0) 171 235 3587
LONDON

OCTOBER 16
MBA Fair
For those considering MBA study, over 40 British and overseas universities will be represented at the Association of MBA's annual business school fair (sponsored by *Barclays & Nat West Banks and the Independent*). Covers full-time, part-time and distance learning MBA courses. Admission free. Register to attend and receive full details via NatWest Bank's registration service.
Tel: 0800 282700
LONDON

OCTOBER 16 - 19
Fire 95 Conference & Exhibition Harrogate International Centre, North Yorkshire
For FREE exhibition admission tickets contact: Nicky Molloy, FMJ International Publications Ltd. Tel: 01737 768611. Fax: 01737 761685.
HARROGATE

OCTOBER 17
Packaging & Processing Machinery Congress -
discussing machinery's role in the Big Picture. - supply chain relationships involving equipment manufacturers, food/pharmaceutical/beverage/cosmetic producers etc and retailers. Keynote speakers: Sir Roland Smith, Edwina Curry MP, plus Gala Dinner with special guest Rory Underwood. Delegate fee £325.
For booking forms call PPMA Ltd
0181 681 8226 or fax 0181 681 1641
Grand Hotel, Brighton
BRIGHTON

OCTOBER 17
Second South Africa - Economy, Investment & Trade
The Cityforum and South Africa Foundation conference features Chris Stals, Jabu Moleketi, Lord Fraser, Elisabeth Bradley, Christo Wiese, Moss Lebakeng Leoka. Sponsors: *Clifford Chance, Merrill Lynch International*, NM Rothschild.
Contact: Cityforum Ltd
Tel: 01225 466744 Fax: 01225 442903
LONDON

OCTOBER 17 19 & 26
QS9000 Awareness & Implementation Seminars.
Presented jointly by SGS Yarsley and General Physics, developer of the original "Big Three" Training material. Based on the sanctioned material, tailored for UK suppliers needs. It deals with the Automotive requirements, relationship with ISO9000, and implementation strategies for QS9000 registration. The definitive QS9000 Awareness Seminars for all Automotive suppliers. Cost: £199.75 inc VAT, lunch, refreshments, course Material.
Further details/registration, Contact: Amelia Lane SGS Yarsley: Tel. 01737 768445 or Fax 01737 772845.
B'HAM LEEDS LONDON

OCTOBER 17 & 18
Practical Dealing course - Foreign exchange
Training in Spot and Forward FX dealing for trainee/junior dealers and Corporate treasury personnel. Highly participative course including WINDEAL (PC Windows-base dealing simulation). Training effected by practitioners with many years' market experience. £520 + VAT.
Lywood David International Ltd.
Tel: UK 44 (0) 1959 565820
Fax: UK 44 (0) 1959 565821
LONDON

OCTOBER 18 & 19
Communication and Security
Two seminars dealing with ISDN Frame Relay, ATM and Security on the Internet. One examines the benefits of introducing the latest communications technologies into business solutions. The second, provides an understanding of how security and business needs on the Internet can be reconciled.
Contact UNICOM Seminars,
01895 256 484, Fax: 01895 813 095
LONDON

OCTOBER 16-18
Interviewing for Lending
The time available for gaining and evaluating information from xxx at a premium and many xxx and disputes could be avoided by skillful interviewing. A better understanding of customer needs can also enchance the fees and margins earned. ● Preparing for the latest news ● Key skills - questioning, listening, summarising ● Needs identification and analysis, negotiating ● Handling xxx and conflict, the follow-up
3 days. £345. Contact: Fairplace
Tel: 0171 329 0595 Fax: 0171 329 3853
LONDON

OCTOBER 19-20
Equity Derivatives - From the Basics to the Latest Developments
● Development of Equity Derivatives and Hybrids ● Index Futures ● Options ● Trading Strategies ● Convertible Bonds ● "Exotic" Options and New Instruments.
2 days, £465
Contact: Fairplace
Tel: 0171 329 0595 Fax: 0171 329 3853
LONDON

OCTOBER 20 - 22, 26 - 28
How to be a Star Performer
This is a unique opportunity for you to improve your presentations, motivational power and communication skills. We have an 82-year pedigree of increasing personal effectiveness and a particularly powerful programme for people entering a career in Finance, Accounting, Business and Law.
Call for details and / or bookings.
Contact: Sara Allen or Wanda Wills
Dale Carnegie.
Tel: 0171 379 4323 Fax: 0171 379 4292
LONDON

OCTOBER 20-22
ACI Diploma - Part One
NOVEMBER 3-5
Part Two
The Association des Cambistes Internationale Diploma for forex and money market dealing. Taken by 500 people so far. Delegates need 12 months' experience in a treasury related function, the course leads to a three part exam offered in June and December each year. Holders can gain exemption from Securities Institute Diploma exam requirement. Full details on request.
Contact: BPP Bank Training - Jonathan Rogers
Tel: 0171 628 8444 Fax: 0171 628 7818
LONDON

OCTOBER 20 - 22, 26 - 28
How to be a Star Performer
This is a unique opportunity for you to improve your presentations, motivational power and communication skills. We have an 82-year pedigree of increasing personal effectiveness and a particularly powerful programme for people entering a career in Finance, Accounting, Business and Law.
Call for details and / or bookings.
Contact: Sara Allen or Wanda Wills
Dale Carnegie.
Tel: 0171 379 4323 Fax: 0171 379 4292
LONDON

OCTOBER 23
Hong Kong: Best for Business
Asia offers enormous opportunities for British business. Hong Kong is the ideal place to take advantage of those opportunities. At this conference for corporate decision-makers, the strategic position of Hong Kong at this important stage in its history will be addressed by a prestigious line-up of speakers including Chris Patten: the President of the Board of Trade: and Lord Young.
Contact: IoD Conference Division
Tel: 0171 730 0022
LONDON

OCTOBER 24
Riding the Tigers
A one-seminar led by Prabhu Guptara. "The World's largest and fastest growing markets are in the Pacific Rim. To guarantee your future you must be involved there". Learn how to avoid common mistakes, discover cultural differences, improve your effectiveness.
Contact: The Strategic Planning Society:
Tel: 0171 636 7737 Fax: 0171 323 1692
LONDON

OCTOBER 24
Traps for Tax Advisers - the Difference between Tax Avoidance and Evasion
In association with Bryan Cave LLP. CPD Accredited. This programme will include the new *US Marital Transfer Rules* and the latest proposals concerning foreign Trusts in the US.
Contact: International Professional Conferences Ltd on 0161 445 8623
LONDON

OCTOBER 24/25
Understanding Treasury Derivatives
Training course covering treasury derivative markets, Currency Options, SAFEs, FRAs, Futures, Interest rate swaps and related products. For Corporate Treasurers, bank dealers and marketing executives, financial controllers, systems and support personnel. £520 + VAT.
Contact: Lywood David International Ltd
Tel: UK 44 (0) 1959 565820
Fax: UK 44 (0) 1959 565821
LONDON

OCTOBER 25
Corporate Capital at Lloyd's: Building the Future
A conference for key professionals in the insurance, investment and banking communities which will deal with Lloyd's *reconstruction and renewal, the creation of* Equitas, the implications of raising and investing capital in the Lloyd's market and future prospects for corporate capital.
Contact: LLP
Tel: 0171 250 1500 Fax: 0171 253 9907
LONDON

OCTOBER 25
European Monetary Union
A one-day conference following the publication of the Kingsdown Report on the *implications for Britain of European* Monetary Union. Speakers include Lord Kingsdown, Ian Davidson, Peter Riddell of *The Times*, Graham Bishop and Professor Richard Portes. An Action Centre for Europe event.
Further information: Claire Burns
Tel: 0171 222 3533
LONDON

OCTOBER 25
The Tax Planner at Risk: The Civil & Criminal Liabilition of Advisers
In association with Peters & Peters. CPD Accredited. The risks involved in acting as a legal & financial adviser are increasing. The professional practitioner must be aware of the law relating to professional liabilities: to be aware of them is to avoid them.
Contact: International Professional Conferences Ltd on 0161 445 8623.
LONDON

OCTOBER 25-26
Developing the Customer-Driven IT Function: New Skills and Competencies for Delivering World-Class Business Solutions
This major conference explores how IT professionals can acquire the new business management and inter-personal skills needed to fulfil their changing role as effective business managers.
Contact: Business Intelligence
Tel: 0181 543 6565 Fax: 0181 544 9020
LONDON

OCTOBER 25-27
IPD National Conference People Making the Difference
Europe's largest conference for the management and development of people. This years theme: People Making the Difference, recognises that the people we employ, their skills and contributions, are the prime source of our competitiveness. Key themes include: Strategic Directions, The Changing Shape of Work, Managing and Developing People and Reward Management.
Contact: Institute of Personnel and Development
Tel: 0181 263 3434 Fax: (0181) 263 3366
HARROGATE

OCTOBER 26
Demos/Business Ethics: The New Bottom Line
A one-day conference for directors and senior executives. Speakers: Gordon Brown MP, Charles Handy, Sir Iain Vallance, William T Redgate, Gary Edwards, Sheila McKechnie. Sponsors: BT, Dun & Bradstreet International.
Details and Booking:
Tel: 0171 222 1280 Fax: 0171 222 1278
LONDON

OCTOBER 26-27
Investment Accounting Workshop
This intensive 2-day workshop delivers a comprehensive understanding of accounting transactions to support investment management portfolio ledger and unit trust systems, and their relationship with corporate accounts. Ideal for IT and Investment Operations and Administration staff. Case studies. £480 + VAT. Alternative dates in 1996 - February 1-2, April 18-19, July 18-19, October 24-25.
Contact: Sally Wickham, Ainsworth & Assocs
Tel: 0171 252 2834 Fax: 0171 252 3074
LONDON

OCTOBER 27
Investor Relations: The Institutions
What makes the institutions tick, 1996 institutional activist agenda, analysis of top houses and fund managers, what Merrill Lynch will do with Smith New Court. Venue: Washington Hotel. Speakers include: BA Pensions Fund CEO David Gamble, MAM Director Paul Harwood, Hermes CEO Alastair Ross Goobey, Fidelity Pensions MD Richard Horlick, Merrill Lynch, Institutional Investor magazine London Bureau Chief David Fairlamb.
Contact: Bass Associates Seminars
Tel: 0171 629 6009 Fax: 0171 629 5669
LONDON

OCTOBER 30 - 31
Edward De Bono's Six Thinking Hats Workshop
The Management Tool for Building the Innovative Organisation. Presented by Chuck Dymer. Learn to : • Use 'Parallel Thinking' techniques as a powerful alternative to Adversarial Thinking' • Increase the constructive output from meetings • Decrease meeting times • Structure the thinking process and make your organisation more action orientated and innovative.
Contact: Juliet Muchenje, Monadnock
Tel: 0181-871 2546 Fax: 0181-871 3866
LONDON

OCTOBER 31
Producer responsibility, your responsibility
All businesses using packaging are required to meet the targets for recovery and recycling set out in May in the Department of Environments consultation paper on Producer Responsibility for Packaging waste. This CBI conference will outline industry's responsibilities.
Contact: Nicola Martin, CBI Conferences
Tel: 0171 379 7400 Fax: 0171 497 3646
LONDON

NOVEMBER 1-3
Introduction to FX & Money Markets
● FX: Basic Definitions, Major Influences and Key Players. Mechanics of Spot and Foward FX Basket and Cross Currencies ● Money Markets: Bank of England Operations. Role of the Discount Houses. *Key Players in the Market, Cash Market* Instruments ● Currency Options: Terminology, Key Features, Applications ● Overview of FRAs, Interest Rate Options. Caps, Collars and Floors, Swaps. 3 days. £680
Contact: Fairplace
Tel: 0171 329 0595 Fax: 0171 329 3853
LONDON

NOVEMBER 2 or 8
The Nitty Gritty of Sponsorship
One day workshop on how to implement *effective sponsorship, minimise the risk* and maximise the opportunity. Topics include identifying the right sponsorship project that fits your budget, using a four dimensional business model to evaluate the opportunity: hard hitting negotiating skills: implications of ambush marketing; the European marketplace: the sponsorship agreement: monitoring and measuring performance and creating your own event.
Call Janice Kohut at Century Communications at 0171 838 0008
MANCHESTER OR LONDON

NOVEMBER 6-7
Portfolio Policy and Performance Measurement
Two day workshop designed to provide an understanding of the characteristics and uses of futures, options and swaps, as used by portfolio managers. Case studies will help delegates calculate margin requirements and calculate profits or losses from derivative positions. £240 + VAT. Alternative dates in 1996 - March 6, May *15, September 11, November 6.*
Contact Sally Wickham, Ainsworth and Associates Tel: 0171 252 2834
Fax: 0171 252 3074
LONDON

NOVEMBER 6-10
Credit Evaluation & Lending - Introductory
The foundation course in credit analysis, risk assessment and the caxxa of lending. Types of Borrower and their needs: Techniques of Credit Analysis: Profit & Loss Account and the Balance Sheet, Cashflow, Forecasts, Sensitivity Analysis; Spreading, Ratios. Key indicators; Business Plans: Debt Service Capacity, Covenants. 5 days. £825
Contact: Fairplace
Tel: 0171 329 2595 Fax: 0171 329 3853
LONDON

NOVEMBER 7
Managing Computer Disputes
IBM, Oracle and Misys provide that industry perspective at this intensive one-day event that also focuses on the role of the Official Referees Court, software piracy, outsourcing, limitation of liability clauses and the role of experts.
Contact: Jeanne Bester,
ESC International Ltd. Tel: 0171 386 9322
LONDON

NOVEMBER 7
Managing Computer Disputes
IBM, Oracle and Misys provide that industry perspective at this intensive one-day event that also focuses on the role of the Official Referees Court, software piracy, outsourcing, limitation of liability clauses and the role of experts.
Contact: Jeanne Bester,
ESC International Ltd. Tel: 0171 386 9322
LONDON

OCTOBER 7/8
Derivatives Products for Sales & Marketing. 2 day course at £495 + V.A.T.
NOVEMBER 14/15
Practical Money Market Trading 2 day course at £495 + V.A.T.
NOVEMBER 15/17
International Securities Settlements. 3 day course at £520 + V.A.T.
TFL/Nicola Blackman
Tel: 0171 606 0084/600 2123
Fax: 0171 600 3751
LONDON

NOVEMBER 7-8
Business Performance Measurement: Transforming corporate performance by measuring and managing the drivers of future profitability
The conference explores the relevance and practicality of developing new "corporate dashboards" which include non-financial indicators, such as customer satisfaction, quality and benchmarking.
Contact: Business Intelligence
Tel: 0181 543 6565 Fax: 0181 544 9020
LONDON

NOVEMBER 8
Making the Most of the National Lottery as a Funding Source:
A Practical Guide for Applicants and their Advisers
Speakers include Rt Hon Virginia Bottomley MP and the five funding bodies. The day will include detailed case studies of successful applicants.
Contact: City & Financial Conferences
Tel: (01276) 856966 Fax: (01276) 856566
LONDON

NOVEMBER 9 & 10
How to Buy a Company
This workshop has been designed to give participants a practical "feel" for the issues which will confront them when acquiring a company. You should be prepared to participate in case study sessions which will be interspersed with presentations given by leading practitioners.
Contact: Acquisitions *Monthly Conferences*
Tel: 01892 537474
LONDON

NOVEMBER 13
Structured Lending
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MEDIA FUTURES

Cyber sightings

by Stephen McGookin

● Confusion over the future of the US Securities and Exchange Commission's EDGAR system (Electronic Data Gathering, Analysis, and Retrieval) was cleared up this week and it remains at the SEC's *www.sec.gov* site.

● Jetro (*www.jetro.go.jp*) is the Japan External Trade Organisation's site, with links to Japanese ministries and assistance programmes for exporters to Japan. Also, the Asahi Shimbun newspaper is now available in English at *www.asahi.com/english/enews/enews.html*

● The International Institute for Economics, a Washington think-tank, has put up a straightforward site, (*www.iie.com*) with a good range of essays and articles.

● Details of the new trading system at the Amsterdam stock exchange are at the Dutch/English site (*www.aeb.econ.vu.nl*), which also offers an updatable market index snapshot.

● Business Direct (*www.gold.net/busdir/*) is an embryonic UK business-to-business directory site with a surreal touch, since for some reason its home page features a huge green button (marked, helpfully, 'Button') which doesn't actually do anything.

● Grupo Negocios (*http://negocios.com*) provides Spanish-language business news from South America and Europe as well as information from the Madrid-based business radio station Intereconomia.

● **Stephen McGookin**
steve@mcgook.demon.co.uk

Financial Times on the World Wide Web
www.ft.com
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Pupils invade walled garden

Virtual frogs to dissect on screen are only the beginning, writes **John Authers**

Biology teachers who feel squeamish about dissecting frogs now have a route out of their dilemma – they can dissect a virtual frog, courtesy of the Internet.

A step-by-step dissection, with copious instructions and worryingly life-like graphics, has been put on to the World Wide Web by a school in Virginia. British schools have discovered it, and it is now firmly signposted for other schools as they come on-line.

It is an example of the potential power of on-line technology which schools, prompted in part by a frantic rush to connect them by both the government and private-sector suppliers, are now beginning to apply.

In April, Mrs Gillian Shephard, the education secretary, called on information technology companies in the private sector to collaborate with schools to develop new networks.

Since then, pilot schemes which at first seemed to be competing with each other and in some cases contradictory, have begun to form a coherent shape. There are still relatively few children using the Internet during lessons, but it is widely used to pool ideas and resources, and to bring children into contact with their peers elsewhere.

Research Machines, the largest supplier of IT to schools in the UK, has taken the lead among providers with its Internet For Learning product. More than 600 schools are now connected. This offers full Internet access but provides "routes" through it, or pathways.

RM has also blocked access to the seamier sides of the Web. Pupils will not be allowed access to pornographic photographs, or find themselves in paedophile news groups.

The RM home page makes it easy for schools to navigate to the areas of most interest – including Web sites set up by schools, which can be done under RM's scheme, and lists of curriculum support material.

Schools already on-line are helping each other navigate. The virtual frog dissection can be reached by anyone who looks up the Web site for Hinchingbrooke school, a comprehensive in Cambridgeshire.

Apart from its official and alternative magazines, the school has also provided a handy "Hinchingbrooke hot-list" of useful material it has found elsewhere on the web. Click on "virtual frog", and you are there.

The same route can be used to find teachers' notes for an entire term's course on producing a school newspaper. Schools also use their Web sites to "advertise" for foreign schools who might be interested in starting a correspondence.

The other significant provider for schools, BT, takes a different approach.

The company describes its BT CampusWorld service as a "walled garden", linking schools to a database which caters to their specific needs. They have e-mail facilities across the Internet, but the rest of the World Wide Web is closed to them unless they pay an extra subscription.

However, BT can claim its service fulfils most schools' needs. Its ScienceNet facility, for example, allows children to send questions to a panel of experts selected by the BBC. They receive their answers, which are publicly available, within two or three days.

Replies are carefully calibrated to the age of the questioner. The answer to a six-year-old who asked "What was the fiercest dinosaur?", for example, has few long words, apart from "tyrannosaurus".

BT intends to extend the system to other subjects beyond science. Other services include "Swift" – a magazine of artwork and written material produced by children – and a text summariser, which teachers can use to cut text to manageable proportions before downloading.

Launched last month as an extension of the predecessor Campus 2000 system, which was used predominantly by schools in isolated areas – including all 34 schools on the Shetland Isles – CampusWorld already claims 500 connections. BT aims to link 6,000 schools to the service by next April.

Access to the "walled garden" costs £12 per month, while unrestricted access to the rest of the Internet in addition to this is an extra £10 – within the reach even of cash-strapped schools.

Suppliers are concentrating their efforts on local education authorities, which have greater capital resources.

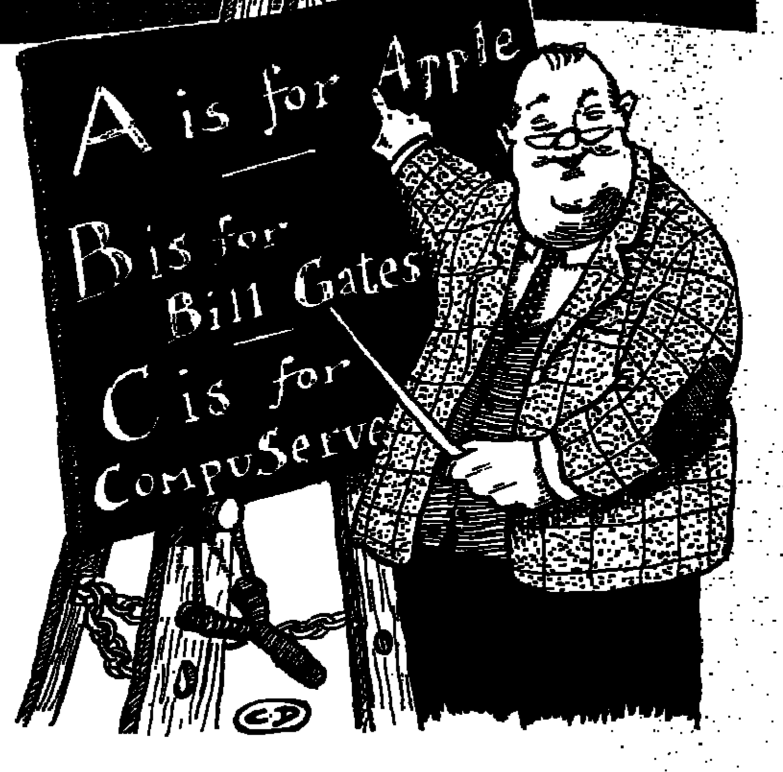
Some teachers claim the BT approach is too cautious, and that children should be exposed to everything the on-line world has to offer. But the company is unapologetic. According to Mr Steve Sansom, education product manager: "We've pitched the service at the busy classroom teacher, so they don't have to waste time finding the content they are looking for. A few years down the road there may not be a need for a walled garden but at the moment there are not enough people who are sufficiently motivated to use computer technology."

That signals the next phase of the debate, which is how to train teachers to get the most out of the Internet.

Mr Michael Heseltine, the deputy prime minister, last month told an audience of teachers that it was not enough "simply to connect schools with broadband communications".

He said the current debate was too strongly focused on technology and hardware and added: "We must have proper training, materials and technical support."

Frogs, in particular, have reason to hope that all biology teachers learn the potential of on-line technology.



Tim Jackson

Wiring up a curator culture

Like all revolutions, today's digital revolution has its avant-garde – prophets, innovators, rabble-rousers, people of action. Yet if there is one figure who rolls all those activities into one, it must be Louis Rossetto, the publisher of *Wired* magazine.

Magazine? Digital revolutionaries, accustomed to referring to the print media as 'ink smeared on dead trees', may ask how a magazine publisher can be one of their leaders. But Rossetto's story raises several interesting issues about the future shaping of the world's media.

The spark that turned into *Wired* was kindled in Amsterdam, where Rossetto was living after falling in love with a KLM stewardess. Working as a translator, he became aware of exciting work in speech and handwriting recognition in Europe, and resolved to start a technology magazine to cover it.

But the market was not ready for his innovations, so he moved west – first to New York, then to San Francisco – to look for venture capital for the world's first techno-glossy.

His manifesto was straightforward; *Wired* would assume some knowledge on the part of its readers. It would bring them together into an identifiable group – largely young, white, male and prosperous – that could become a lucrative target for advertising.

Astonishingly, no institution was interested. So Wired was launched with \$1m (£600,000) funding, raised exclusively from 20 private individuals – including Nicholas Negroponte, head of MIT's media lab.

It is already a commercial success. Rossetto has delivered the audience he promised – and cites as evidence the facts that 75 per cent of the magazine's readers have e-mail, and one in ten bought a PowerPC computer within a month of the first units being available.

Wired has crossed the line from ghetto to glamour. While British technology magazines are full of drab advertisements for computer peripherals, computer companies and online services jostle for ad space in *Wired* with carmakers, Scotch whisky brands, airlines, sneakers, jeans and designer specs.

The magazine's lurid graphics and new-age typography have influenced designers everywhere. Its wavy lines of letters, its electric pinks and greens, and its morphed photos of celebrities are imitated in ads and magazines all over America.

Negroponte, who agreed to write for the magazine in return for some equity, is now better known as a *Wired* columnist than for his work at MIT. Meanwhile, Rossetto himself has become a pundit on all things digital who pops up at conferences everywhere from Holland to Tokyo.

But he did not stop at *Wired*. "The vision has mutated," he told me over peppermint tea in London last week. "Then, we were trying to make a good magazine; now we're trying to create a good media company."

In October 1994, Rossetto made his first move from paper to cyberspace. *Wired* launched a service on the World Wide Web of the Internet, known as *HotWired*, that contained its own new content as well as material from the magazine.

"We were insanely pioneering," Rossetto recalled with a smile. A month after the launch of *HotWired*, Netscape was distributing the commercial browser software. Since then, the Web has exploded – and its usage continues to grow at 53 per cent a month. *HotWired* was in at the ground floor.

At launch, *HotWired* was what Rossetto describes as an "alpha" – a technology demonstration of what was possible, with little clear sense of organisation.

The venture is free to users, and paid for by advertisers, who pay upwards of \$30,000 for a lot on *HotWired*'s pages. Rossetto has ploughed back advertising revenue into the editorial product itself.

There are now eight different content "collections", put together by a team of 60 journalists and creative people, and the plan is to raise revenue from subscriptions, consultancy and from sale of individual articles for a few cents when electronic commerce on the Internet becomes a reality.

Meanwhile, Rossetto is planning a new push into Europe. There is already a UK edition of *Wired*, which was established last year in partnership with *The Guardian* newspaper. After disputes between the two sides, the British magazine is now being relaunched with more local content – and editions for Germany, France and Italy are being planned.

Isn't this odd, I asked Rossetto, given the fact that Europe has fewer successful high-tech companies, less of a role in the Internet, and fewer home-grown new products and flamboyant personalities? Is Europe really wired enough for *Wired*?

"Europe is a curator culture," he admitted. "The motto here is: let it be innovated elsewhere, then we'll look at it." He concurs with the view that trying out crazy new ideas is much more common in Japan and the US, and admits that Europe has become a net importer of high-tech goods.

All the same, he is confident that Europe's business culture is changing. Not only are exciting things happening in the media and with new start-ups; he believes that the old top-down centralised view of Europe is disappearing, thanks to privatisation and deregulation.

"We want to give honour and recognition to the people who are making that happen," he said. As a model, Rossetto cited *Vogue*, which has successfully created local editions all over Europe and in America.

Will the same formula work for *Wired*? A reason for optimism is the team already built in Britain. Rossetto has hired three stars from the *Economist*: David Gordon, former group MD, John Browning, former business editor, and (as new editor of UK *Wired*) Oliver Moreton, former science and technology editor.

But my prejudice is that Europe is not only too fragmented but also too conservative and traditionalist for a fully localised group of *Wireds* to succeed. I would be delighted, however, to be proven wrong – and I'll be looking out for the evidence.

● Tim Jackson can be contacted at *t.jackson@pop3.demon.co.uk*

League's world cup opens with a whimper

Britain's biggest rugby event for many years has been a missed opportunity for publicity, writes **Keith Wheatley**

Rugby League's golden goose may be about to turn into a turkey. On Saturday, the twin towers of Wembley stadium host the opening of the sport's World Cup. Those with glorious memories of the rival code's May extravaganza in Cape Town are in for a shock. Wembley looks like being at most a quarter full for the opening ceremony followed by England versus Australia.

The biggest international sports event Britain has hosted for years is being projected too little, too late. The most imaginative promotion so far looks like the offer of two free pints of ice-cold lager with every ticket sold. Wembley's owners, not the Rugby League, came up with that wheeze aimed at Australian back-packers via the free-sheets that litter the pavements of Earls Court.

"We've only sold a couple of thousand tickets so far but we're hoping for a big 'walk-up' on the day," a Wembley spokesman bravely explained.

Despite the growing success of the local Broncos team, London is hardly the epicentre of what has traditionally been a blue-collar sport with roots in the industrial cities of the north of England.

Wigan is the touchstone of rugby league success. Nine players in the England squad, six back-to-back successes in the league championship since 1989, and a full stadium most weeks. They are a key outlet for World Cup tickets.

"We've only sold four or five hundred so far for Wembley. It's not as many as we would like," said Jack Robinson, chairman of Wigan, ruefully. "We do definitely need a higher profile for the World Cup but it's just come at the worst time."

That seems odd. Only months ago rugby league appeared bathed in financial sunshine as the rival television entrepreneurs Rupert Murdoch and Kerry Packer battered one another with their cheque books to buy up the sport.

Murdoch took line honours in Britain, at a cost of £78m. His Super League begins next year, turning league into a summer game.

Packer's lieutenants from the Australian Rugby League were in London seeking star players who would transfer to his clubs Down Under.

Up north, many smaller clubs were opening the mail to find themselves compelled to merge or be flung into outer darkness.

To say there was discontent is like calling the Black Death a "bug". "There's been a lot more trauma than people realise. It's been a question of survival," said Robinson, a member of the Wigan board since 1980 and one of the most influential men in rugby league. "People haven't been able to get together, united, and do a good job on the World Cup."

Last week the Rugby League's chief executive, Maurice Lindsay, told Australian radio that the internal dispute about the Australian team (the ARL won't pick players who have signed for Murdoch) was harming World Cup ticket sales.

"It's a little disappointing that the great names we have heard of and seen for so many years won't be playing," said Lindsay.

Yet Lords will be sold out for an Ashes test match months before the Australians announce their cricket squad. Is Lindsay in his role as tournament director deflecting the flak before it arrives?

Insiders say that the marketing and promotion of the event, which comes in the Rugby League's centenary year, has long been poorly planned.

Even those sympathetic to the team at the Leeds headquarters admit that the managerial eye hasn't always been on the oval ball.

"The people who should have been running World Cup have all been involved with setting up Super League and the battle with the ARL," Robinson says.

"The chief executive has been jetting all over the world trying to make peace between the different factions."

The tournament has much to offer. Splitting the Great Britain team into England and Wales has let former rugby union star Jonathan Davies return in triumph to play in Cardiff.

Kevin Ellis, once Bridgend's scrum-half, now a Queensland professional, has said that he hopes to play rugby union in the winter and rugby league in the summer, now that the amateur code has gone open.

Wigan's sales for the England v Fiji game at their ground are going well and may reach 15,000. But in the words of specialist rugby league writer David Lawrenson, "most people aren't even going to be aware [the World Cup] is going on".

Rodney Walker, chairman of the Rugby League, admits there were problems of timing and resources. "The advertising and marketing campaign didn't start until early September. Perhaps the build up wasn't long enough," he said from Wakefield. "Had the Super League not presented itself in April, perhaps the World Cup team would not have been deflectedin the way that it was."

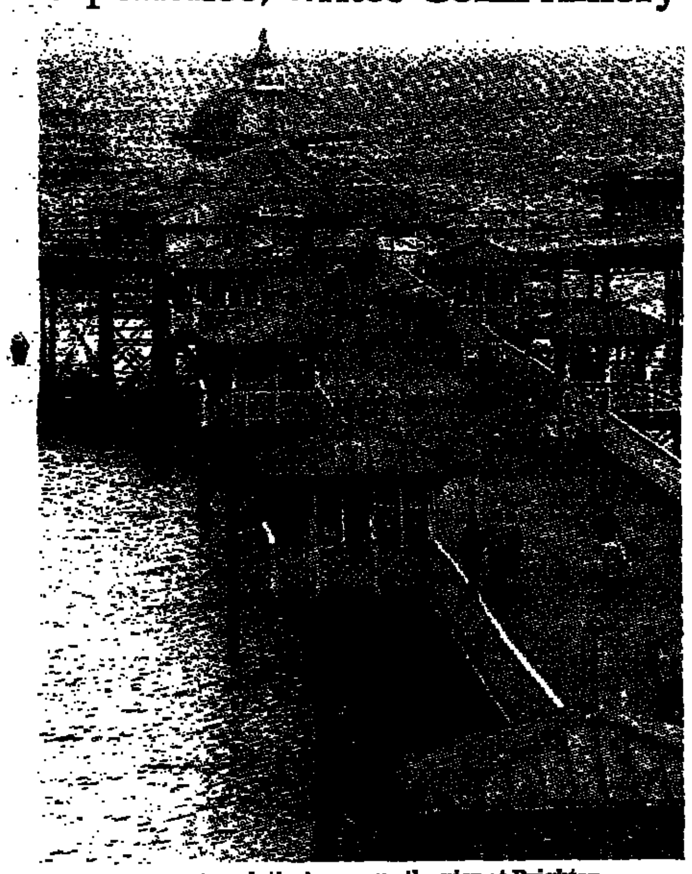
Walker has also been chairman of the re-organised UK Sports Council for slightly more than a year. One of his first projects was to set up the major events support group which, in the words of one of its staff, "exists to help governing bodies with the organising, marketing and promoting of international events held in Britain".

The team are busy assisting with next year's Europa '96 football championship. They have not, so far, been asked for any assistance by the Rugby League World Cup.

Gold amid the gloom: splitting the Great Britain team has allowed former rugby union star Jonathan Davies to return in triumph to play in Cardiff

Seaside resorts born again in bright sunlight

Piers offer landlubbers a special experience, writes **Colin Amery**



Answer to a contemplative's prayer: the pier at Brighton

They were born again this summer. As the days grew longer and hotter, the English seaside town again came into its own.

The clear bright light of a good English summer brings to the fore the idiosyncrasies of seaside architecture. There is nothing like it anywhere else.

The mass tourist market has switched its loyalties to Alicante, but little English seaside towns have not disappeared, they have only slumbered. They spring into the news when their old piers are swept away by storms or when political parties invade them for annual conferences.

The nineteenth century adoption of the seaside holiday as the norm for so many created a completely new world – that of "the resort". We tend to think today that the theme park is new, but the elaborate nature of some Victorian seaside towns puts them almost into the theme park category.

The Continuing Education Unit of Sussex University, with sponsorship from American Express (their seaside headquarters is in Brighton) put the travelling exhibition "Resorts of Delight" together. It can be seen inland in London until October 21 at the RIBA Architecture Centre, 66 Portland Place, London W1. The centre opens at 8am and on Tuesdays and Thursdays is open beyond the normal 6pm until 9pm.

This exhibition does what exhibitions should – it transports you into another world. The small English resort like Weymouth in Dorset still has everything you expect, from the Regency houses to the pier pavilion.

The longest pier in the world – the strange claim to fame of Essex's Southend pier – caught fire recently and made the world notice the extraordinary nature of that folly. These days piers seem very staid and quaint. What is the point of promenading out to sea to the end of the pier, where a few lonely fishermen cast their lines among the rusting supports? The point is that the end of the pier is the perfect place to stand and stare. To be in a limbo between land and sea, and to look back at our crowded island and contemplate the nature of things.

This exhibition conveys a sense of deep nostalgia. The posters and postcards say it all.

The range of architectural styles makes the seaside towns so distinctive. There is nothing so pleasing as a Regency marine residence. The bow window and the iron balcony and the quiet classicism of the architecture say a lot about the peaceful 1820s. Hastings, Brighton, Scarborough, St. Leonards, Southwold are rich in superb houses. The speculative holiday town continued well into this century.

The architecture changed, the streamlined 1930s with white walls, curved windows and flat roofs suited the dream of a permanently sunny seaside life. Great blocks of flats with long white balconies arrived imagining they were in the South of France. The seaside became a place to retire to. Cosy houses sprang up at Peacehaven and Frinton. Chic flats spread at Bournemouth and a social map could be drawn in England of the "select" seaside.

What is the future of these marvellous towns? The National Lottery Heritage Fund is helping to restore some of the architecture and piers. Clevedon pier in Somerset and the fine crescent at Hastings have benefited. Large sums have been spent to improve and preserve Blackpool's Tower and the Pleasure Beach and holiday camps have become more sophisticated "Holiday Worlds".

The English seaside has a unique charm that is largely the result of its architectural delights. This exhibition points out the uniqueness. The qualities of the resorts are well worth saving and gently exploiting so that they have an economic future . . . if the sun shines.

BUSINESS TRAVEL

Timetable horror

Before they even step on a train, travellers in the UK have to navigate through the 2,100-page winter timetable and two supplements of corrections, writes *Charles Batchelor*. If they try to call a telephone inquiry bureau they are unlikely to get through and, if they do, they stand a good chance of being given the wrong information, a recent survey showed.

Railtrack, which has taken over responsibility for the timetable from British Rail, says despite the discovery of more mistakes it has ruled out a third supplement. It may therefore rush out a completely revamped timetable or it could wait until January when it normally prints a supplement updating information.

In the meantime travellers are advised to double-check times. They could call the national hotline launched last March by Southern Vectis, a bus company, on 0891 910190. Charging 49p a minute at peak times and 39p at all other times, it provides rail, bus and coach information.

China air growth

The return of *Hong Kong to* China in 1997 should quickly lead to the establishment of non-stop flights between Taiwan and several cities in China, while airline passenger traffic to China is set to rise sharply, according to Airbus Industrie.

The Hong Kong-Taipei market alone represents 10,000 seats a day. Once direct China-Taiwan air links are established, "markets such as Taipei to Shanghai, to Guangzhou or to Beijing will instantly require wide-body services," Airbus said in a report tabled at the IATA Air Transport Outlook conference in Toronto.

Overall Chinese domestic passenger volume is set to grow by an average of 13 to 14 per cent, while international travel will rise by up to 9 per cent in the period to 2000, Airbus added. However, airports and air traffic control capacity is projected to grow at an average 10.2 per cent a year and China's air traffic system will not be able to accommodate all the potential traffic, it said.

Domestic business travel will continue to be the biggest *growth factor, Airbus predicted*. Only 10 per cent of Chinese air passengers travel for personal reasons such as tourism or visiting friends. Of the 4.6m foreign passengers to the country in 1993, 49 per cent were in China on business, it said.

Hotel hell rapped

Do not disturb

Too many people are suffering "hellish hotel experiences", said the UK Consumers' Association, which urged hotels to improve the way they treat lone travellers, children and disabled guests.

Single guests were often "a source of irritation", said the association. It also said there was evidence that some hotels were illegally not including value added tax when quoting rates for accommodation, then presenting guests with higher-than-expected bills when they checked out.

Swiss decline

The Swiss hotel industry continued to experience a decline in business as overnight stays in August fell 9.1 per cent from last year to 3.78m, the lowest number since 1952.

The Federal Statistics Office said the strong Swiss franc and restrained consumer behaviour due to economic weakness led to the sharp drop in hotel stays.

Domestic demand fell 6.3 per cent to 1.39m stays, while foreign demand fell 11 per cent to 2.39m – largely influenced by a 13 per cent decline in visitors from other European countries. During the first eight months of the year, overnight stays in Swiss hotels were down 6.6 per cent, or by 1.62m, from last year to 22.84m.

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
Tokyo	24	25	[illegible]	[illegible]	[illegible]
Hong Kong	30	30	30	[illegible]	27
London	18	19	[illegible]	[illegible]	[illegible]
Frankfurt	18	22	19	[illegible]	17
New York	25	24	[illegible]	[illegible]	[illegible]
L. Angeles	30	31	31	[illegible]	31
Milan	19	20	[illegible]	[illegible]	[illegible]
Paris	20	22	20	18	16
Zurich	19	20	[illegible]	[illegible]	[illegible]

Maximum temperatures in Celsius

Information supplied by Meteo Consult of the Netherlands

How to attract lucky dragons

Visitors to Hong Kong will benefit from positive energy, says Kate Bevan

Mysticism is never far from commercialism in Hong Kong, where ancient Chinese beliefs sit side by side with one of the most vibrant free markets in the world. So however packed your trip to the territory, you can be sure that the building you are meeting in, the office you are working in, even the bed you are sleeping in, will be arranged to take maximum advantage of the mystical energy.

Feng shui, a mixture of Chinese legend and principles based on I-Ching, pervades Hong Kong. No building or refurbishment project can go ahead without a feng shui consultant. "You get a feng shui man in early in the game of any project," says Thomas Axmacher, general manager of the Regent hotel on Hong Kong's Kowloon peninsula. "And the *gweilos* [foreigners] are more superstitious about it than the Chinese. We have to respect local beliefs and take them seriously."

The Regent is a good example. Perched on the waterfront with a spectacular view of the harbour, the hotel is designed to allow maximum access for the good luck dragons, said to live in the mountains above the city, to the water of the harbour.

First in the equation is the fountain at the front of the building, which faces towards the mountains. Water is said to attract the lucky dragons – as well as money. The lobby is designed with floor-to-ceiling plate glass doors and windows through which the dragons can pass to get to the harbour, thereby spreading their luck through the hotel as they pass.

Over the road at the *Peninsula*, a refurbishment programme included measures to reduce the bad feng shui of the nearby Hong Kong space museum. The planetarium dome resembles a Chinese grave, according to Sian Griffiths of the hotel. So the door gods, who protect guests and staff, have been redesigned in a bigger, more modern and more fearsome guise to scare off the bad spirits.

One of the most famous buildings on the Hong Kong skyline is IM Pei's Bank of China. With its sharp angles and shiny glass, it supposedly casts bad feng shui directly at the governor's mansion. However, the bad energy has since been deflected by Chris Patten's consultants and gardeners, who planted trees to deflect it.

Feng shui applies to time cycles as well as buildings, and Governor Patten can take heart that his negotiations with Beijing will not end in rancour. According to Sarah Shurety, a London-based feng shui consultant, from the year 2003 the world will enter a cycle which will focus on change and balance. "If we think things are going fast now, you wait until then," she says. "Hong Kong will be much stronger from then. It will get more balance and there will be reconciliation as the energy shifts around."

"Does it work?" asks Keith Allardice of Hong Kong's Conrad hotel. "Since we had the feng shui man in during our refurbishment last year, our wedding business has gone up 24 per cent. I think it works."

The Feng Shui Company in London does consultations. Tel 0181 293 4471

Harbouring luck: the Regent's lobby lets the dragons through to the water

Passport to faster exit

For the weary traveller few sights are more frustrating than a long, slow-moving immigration queue that seems to last as long as the trip itself. Now, thanks to modern technology, help is on the way. Travel to and from the United Kingdom for foreign nationals should become much faster with the decision last week to install a new computer system capable of scanning any passport in less than a second at all the country's ports of entry.

The system, designed by ICL at the cost of £10m ($15.8m), was first planned in 1993 and has just completed successful trials at Gatwick and Heathrow airports, Dover and on the Channel tunnel.

The core of the new equipment is a central database holding an index of nearly 400,000 suspect persons that the Home Office feels would be undesirable visitors, which officials at present check by means of a cumbersome 300-page manual. With the new system they can either swipe passports through a scanner or enter the the name of the individual visitor.

The government is hoping that, in addition to streamlining checks on the 10m foreign nationals who enter the UK every year, the new system will establish tighter security, helping curtail terrorism, organised crime and illegal immigration.

Mark Suzman

Ulster reaps the peace dividend

Belfast's Europa Hotel nearly did not survive to host some of the province's important ceasefire initiatives and investment drives.

Europe's most bombed hotel has borne more than its fair share of the troubles. The Europa fared the worst of all Belfast's hotels because of its city-centre site and reputation for accommodating journalists, guaranteeing prominent news coverage. By 1993 the hotel, bombed 30 times in its 25-year life, had crumbled into receivership.

To some local surprise it was salvaged by the Hastings Group, a hotel chain headed by Billy Hastings, who started his business after inheriting two Belfast pubs and an overdraft. He spent £6.5m ($10.3m) to restore the Europa over two years. It now houses a business centre, conference rooms, banqueting and entertainment facilities. With the advent of peace, he is attracting a new type of business traveller.

The Europa always had a reasonable trade in business travel, but before its restoration it had scant business facilities. Now it caters for trade fairs, conferences and large-scale meetings. Last year it hosted the province's biggest investment conference.

For Mr Hastings, whose chain of hotels has suffered more than 100 bombings, it is a vindication of his belief in the hotel. "Many people thought I was mad to take on the Europa but I believed that with sufficient work it could become an important part of the city again."

The Europa's occupancy rate is now averaging 80 per cent during the week, compared with about 50 per cent when it reopened.

The growth in occupancy at the Europa is echoed throughout the province, which almost seems to be at crisis-point with accommodation. The Northern Ireland Tourist Board has taken advertisements in the local press encouraging home-owners with spare rooms to become guesthouse providers. Baroness Denton, Northern Ireland's economy minister, says there is an expected demand for 15,000 extra beds by the end of the decade.

The influx of visitors is considerable. For the first six months of the year 668,000 visitors went to the province, a 14 per cent increase on the same period last year. For the whole of the year it is estimated that 1.5m people will have visited on business or pleasure, compared with 1.29m last year.

The international players are beginning to gather. The Hilton chain will open a £17m hotel in Belfast in 1997 on a site adjacent to a large conference and concert centre due to open next year. The Radisson group has franchised a new hotel outside Belfast. And other hotel chains are said to be coming.

Existing hotel chain owners – who are local, in the main – are more sceptical. Ulster is a modestly populated place, they argue, and the novelty of the peace dividend will wear off. There is, they believe, some opportunity for expansion but they caution that the government-backed agencies may be getting carried away.

The targets may be ambitious. Tourism gross domestic product as a percentage of total GDP is expected to rise from 1.8 per cent last year to 3 per cent by 1997-98, and the industry is expected to sustain an additional 8,000 jobs by 1997-98.

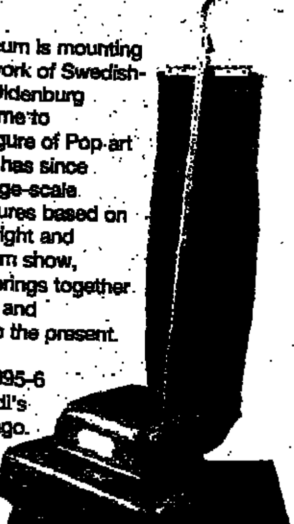
Local doubts may persist. But then the ceasefire has also had its share of sceptics.

Christine Buckley

ARTS

NEW YORK
The Guggenheim Museum is mounting a major survey of the work of Swedish-American artist Claes Oldenburg (b.1929). Oldenburg came to prominence as a key figure of Pop art in the early 1960s, and has since made a speciality of large-scale monuments and sculptures based on everyday objects (left, right and centre). The Guggenheim show, opening on Thursday, brings together 200 drawings, collages and sculptures from 1958 to the present.

● The Metropolitan Opera's 1995-6 season opens tonight with Verdi's "Otello" starring Placido Domingo. The performance marks the introduction a simultaneous translation system using individual screens in front of each seat.



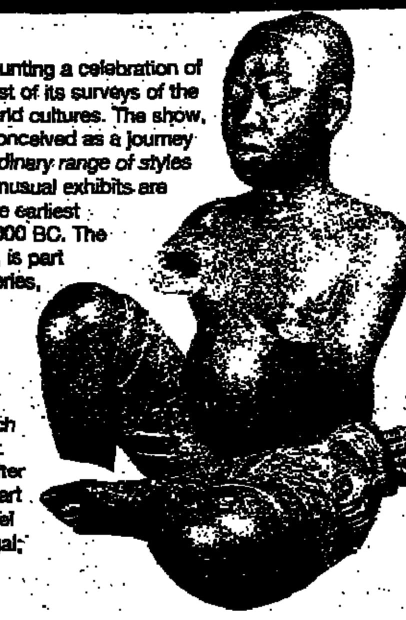
COMPIEGNE
The elegant Imperial Theatre, unfinished when France's Second Empire collapsed in 1870, was completed in 1990 and has since made a useful contribution to the French operatic scene. It is dedicated to reviving neglected works in the native repertory, the latest of which is Auber's opera-comique "Le Domino noir" (1837). There are only two performances, on Saturday evening and Sunday afternoon, in a staging by Pierre Jourdan. Compiegne is within easy reach of Paris by train or car.

MADRID
A retrospective of the early 20th century French painter Georges Rouault opens tomorrow at the Fundacion Juan March. It includes 53 paintings, plus 10 engravings from his Miserere series. Rouault was considered the only French expressionist painter, but it was expressionism with a spiritual quality. He spoke of painting as a cleansing of the soul, and much of his work deals with religious subjects.

ROME
The Accademia Filarmonica's new concert/dance season opens on Thursday with the Ballets de Montecarlo in an all-Balanchine evening. Other highlights of a season centred on visiting dance companies and Baroque music include the King's Consort from London in Purcell's "King Arthur", and Maurice Bejart and Les Arts Florissants in the Spring.

LONDON
The Royal Academy of Arts is mounting a celebration of African art (left and right), the latest of its surveys of the artistic achievements of major world cultures. The show, which opens on Wednesday, is conceived as a journey round Africa, showing the extraordinary range of styles and materials. Among the more unusual exhibits are examples of rock art, including the earliest portable painting dating from 27,000 BC. The exhibition, which runs till January, is part of a season of African arts in galleries, cinemas and theatres throughout the UK.

GLASGOW
All three auditoria of the Glasgow Citizens Theatre ("The Citz") launch contrasted productions this week: "The She-Wolf" by the Sicilian writer Giovanni Verga, directed by Stewart Laing, "A Song at Twilight" by Noel Coward, directed by Giles Havergal; "Shadow of a Gunman", by Sean O'Casey, directed by Jon Pope.



Blooming in Amsterdam

Admired for his artistic originality and cosmopolitan outlook, director of Netherlands Opera Pierre Audi talks to Andrew Clark about artistic collaboration and rapport

Musical and theatrical luminaries from around the globe will congregate in Amsterdam this week for what promises to be one of the operatic events of the year – the Pierre Boulez-Peter Stein production of Schoenberg's *Moses und Aron* at the Muziektheater. While Boulez and Stein will be the main focus of attention, the man who hatched the project will remain backstage, observing the fruit of years of patient encouragement. He is Pierre Audi, the Netherlands Opera's artistic director.

When Audi was appointed in 1988, the Netherlands Opera was a shambles. It looked ill-at-ease in its new home, it was being pasted by the critics and had run up an enormous deficit. Today, the company is a model of its kind: progressive, accessible and unmistakeably original, with well-established roots and an enthusiastic public.

What makes Audi's success noteworthy is that, by his own admission, he is not "an obvious operatic person", and he is not yet 40. As one of life's great enablers, Audi makes things happen against expectation. He refuses to accept conventional solutions to perennial problems. He creates fashions instead of following them.

Born in Beirut in 1957 of half-Lebanese, half-French parentage, Audi had a privileged education in Paris and Oxford, and holds a British passport. He first came to attention in London in the early 1980s, as founder and animator of the Almeida Theatre. Audi showed that, contrary to received opinion, there was an eager market for contemporary music and theatre, and money could be found to pay for it. The Almeida became known as a place where the odd, the international, the challenging and the new came together.

When Audi was headhunted by the Dutch, it was a leap in the dark for both sides. Audi had never set foot in Holland. He had not directed opera on a large stage. He was barely 30. The appointment of an unknown outsider ruffled feathers in the Dutch cultural establishment. What attracted the Netherlands Opera's board was Audi's reputation for artistic originality without extravagance. He had a cosmopolitan outlook, and shared the Dutch interest in new and early music. As Audi settled into the job, the international opera community watched with curiosity and almost gleeful scorn at the prospect of his certain failure.

There were, indeed, some failures in his first two seasons, but they were matched by equally big successes. And Audi learned fast – helped by a hard-nosed general administrator, Truze Lodder, who installed the financial disciplines essential for the company's stability. Audi and Lodder have an unusual power-sharing arrangement, which works because of their complementary skills and personal chemistry.

Audi is by no means universally liked. Some critics have accused him of using the company to put on too many of his own productions, and his personal style – cerebral, intellectual, older than his years – fits ill with Dutch informality. But he feels understood by the Dutch in a way he never was in England. "What I've tried to capitalise on," he says, "is the fact that culture in Holland has always had a tradition for curiosity, for welcoming the new. It has often been manifested in the Holland festival, in a slightly snobbish way. That does not meet with me. I don't think you should present things in a 'sushi' manner, all beautifully wrapped and precious. You have to get your hands dirty, push things to the edge, create a debate. To find quality, you have to go through all colours of the palette."

> *'What I've tried to capitalise on is the fact that culture in Holland has always had a tradition for curiosity, for welcoming the new'*

Eclecticism is the key to Audi's programming. There has been Mozart and Morton Feldman, Birtwistle and *Bohème*, and a string of new Dutch operas. His own productions – visually severe, sometimes touching, never cute, always focused on the performers – have helped to anchor the company. He has made a point of collaborating with visual artists – "I could never have done this in London, because of the conservative response to modern art there" – and says his hugely successful Monteverdi cycle developed "empirically, picking things up along the way. I react against the fact that opera is by definition an inflexible art form. That's why I'm happiest working in my own theatre. I would have less freedom if I was to move around."

After focusing initially on early and modern opera, Audi is moving towards the standard repertoire: he will produce *Die Zauberflöte* in December, followed in 1997-8 by the first home-grown Dutch *Ring*. He is working on a company plan for the first 10 years of the new century, which will redress gaps in the repertoire, such as bel canto opera.

Whether he will be there to realise the plan is another matter. Given the Muziektheater's convenient working conditions, the chance to explore operas by Gluck, Handel and Berlioz may be sufficient reward for staying put. But with no family ties, Audi is not the type to sit around unless fully stretched. Self-taught in all he has done, he says he has never thought of opera as a career. He still harbours a desire to work in film, and some see him as a long-term successor to Brian McMaster at the Edinburgh festival.

Although Audi visits London regularly and is fond of British life, he views the UK arts scene with growing detachment. "Too many people invoke the ghost of no money, and not enough is said about courage and posing the right questions. It makes me sad there has been no movement to develop what we did at the Almeida. It doesn't need to be an imitation – just the idea that there should be an alternative look at contemporary culture, something freer than what the national companies seem forced to churn out. They lack the ambition to really crack things open."

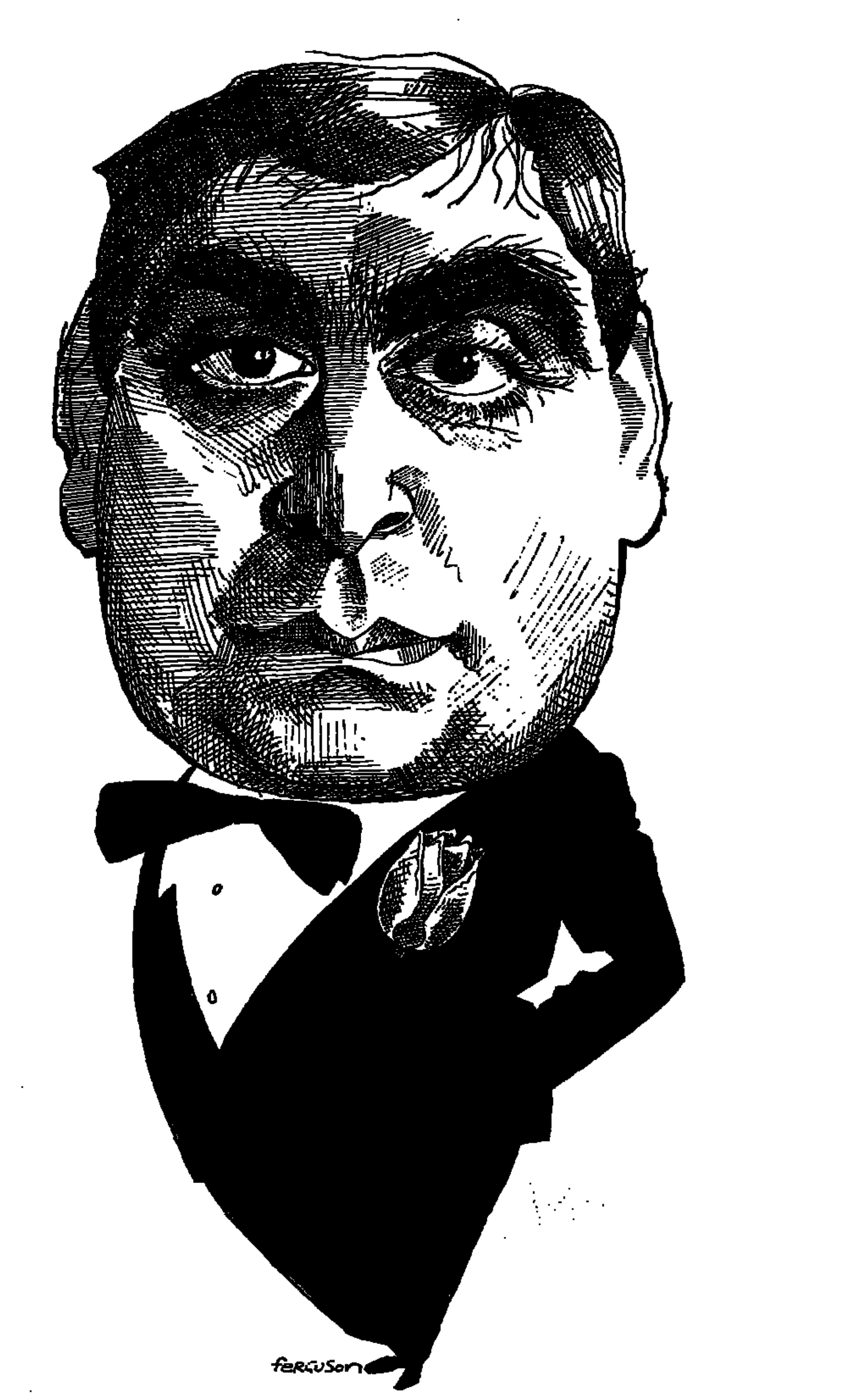
Invoking a Dutch metaphor, he says the British theatre world encourages directors to be "a tulip no taller than the rest: when someone springs up with a bit of personality, they're quickly brought back to uniformity. Witness the programme of the National Theatre and RSC: it's very, very even. I think there should be extraordinary projects – not in a laboratory, but really brought to the audience. These theatres can afford to do it. They did it in the 1960s with Peter Brook and the Theatre of Cruelty. Where has that questioning spirit gone?"

He says the same narrow horizons affect British operatic life. "The big companies are quite successful, but they're not exactly inventive. They do things to a formula – certain types of singer, costing a certain amount of money, within a certain visual framework, appealing to a certain type of audience – and they're frightened to move away from that. It's a kind of sclerosis."

While British companies may bridle at such comments, they could learn a thing or two from Audi's relationships with creative artists. When he arrived in Holland, one of the first things he did was invite Boulez to work there: Boulez duly obliged. Audi followed the gestation of Schnittke's *Life with an Idiot* and was rewarded with the first performance. Having worked separately with Louis Andriessen and Peter Greenaway at the Almeida, he put the two together for *Rosa*, premiered last year at the Muziektheater.

"Opera houses have a responsibility to be the breeding ground for new work, but manufacturing commissions is dangerous. It has to come from the heart and soul of the artist. *Life with an Idiot* was a spontaneous work, fundamentally original, and that's what interested me. I'm doing the same with György Kurtág, but it's very hard. I can't say 'here are the dates for you, here's an orchestra'. I just have to keep meeting him, which I have been doing for eight years, in the hope that one day we will get a work from him. I think he can produce something extraordinary. That's what I'm seeking – a rapport with artists, to allow an idea to emerge, to give them the feeling it can be anything, and to be there to receive it when it comes."

Moses und Aron **opens at the Amsterdam Muziektheater on Wednesday; further performances till Oct 28. It will be restaged at next summer's Salzburg festival.**



Music

Messiaen's notes from the grave

The French composer Olivier Messiaen died three years ago at the age of 83, but posthumous works continue to appear. Not long ago we heard his "last" big orchestral piece, *Eclairs sur l'Au-Delà*; and on Thursday we had the British premiere of his *Concert à quatre*, with four soloists and the London Symphony Orchestra conducted by Kent Nagano.

There is no knowing how much music may yet flow from Messiaen's spectral pen, for more works-in-progress may be waiting – and his devoted widow, amanuensis and definitive piano-exponent, Yvonne Loriod, is happily still with us.

In fact it was she who prepared the *Concert* for performance: no small task, for it involved orchestrating part of it in faultless Messiaenic style, and, it seems, actually filling in some of the music of the fourth movement, a Rondeau.

Loriod stopped short of writing the unwritten fifth movement, the "four-subject fugue" – an intriguing departure for Messiaen! – which should have crowned the work. It would have supplied more for the soloists (flute, oboe, cello and piano) to do; the ones he had in mind were Catherine Cantin, Heinz Holliger, Rostropovich and, of course, Mme Loriod.

What remains is a glittering, attractive suite, entirely in his familiar manner – or manners: the Vocalise movement began as a tender, wordless song in 1935, now titivated with sonorous chords and birdsong in his later style.

Ornithology reigns, indeed. One page of the programme was devoted to cataloguing all the birds represented, complete with their Latin species-names. They supply the material (transformed, slowed down or speeded up) for the decorative tendrils, the fanfares, the occasional forceful pronouncements. The large orchestra is rarely used in *tutti*, but is drawn upon for different banks of colours.

The soloists are hardly more prominent than the first-desk players in any Messiaen piece. In their joint "hors tempo" cadenza for the Rondeau, which it fell to Loriod to complete, I fancy she has modestly given herself a much less showy part than Messiaen would have done. The other soloists here, all excellent, were Paul Edmund-Davies, Roy Carter and Tim Hugh.

In sum, the *Concert* is a light, engaging piece that adds nothing to our knowledge of Messiaen.

The scale of its forces is likely to ensure that future performances are rare. It must need a lot of rehearsal time, too, of which the LSO's remaining offering sounded starved.

David Murray

INTERNATIONAL ARTS GUIDE

■ BALTIMORE

GALLERIES
Baltimore Museum Tel: (410) 396 6310
● Celebrating Calder: sculpture, jewellery, drawings and tapestries by the 20th century artist Alexander Calder; from Oct 4 to Jan 7

■ BERLIN

CONCERTS
Konzerthaus Tel: (020) 309 21 02/21 03
● Berlin Symphony Orchestra: with oboist Martin Gabriel. Yoël Levi conducts Greig, Mozart and Bartók; 8pm; Oct 7, 8 (4pm).

OPERA/BALLET
Deutsche Oper Tel: (030) 34384-01
● Boris Godunow: by Mussorgsky. Conducted by Rafael Frühbeck de Burgos and directed by Götz Friedrich. Soloists include Matti Salminen, Mariana Cioromila and Camille Capasso/Hermine May; 6pm; Oct 3
● Das Rheingold: by Wagner. Conducted by Jiři Kout and directed by Götz Freidrich. This is the first part of the complete "Ring Cycle" to be performed in October; 7.30pm; Oct 6
● Die Walküre: by Wagner. Conducted by Jiři Kout, and directed by Götz Friedrich; 6pm; Oct 8

■ FRANKFURT

CONCERTS
Alte Oper Tel: (069) 1340 400
● Recital Evening: with soprano Barbara Hendricks and pianist Staffan Scheja. The programme includes Schubert, Wolf, Poulenc and Shönberg; 8pm; Oct 4
● South Western Radio Orchestra: with sopranos Dame Gwyneth Jones and Jane Giering, and mezzo-soprano Ingrid Bartz. Peter Falk conducts a Viennese evening that includes pieces from Strauss' "Rosenkavalier" and "Der Fledermaus"; 8pm; Oct 3

■ LONDON

CONCERTS
Royal Festival Hall Tel: (0171) 928 8800
● Philharmonia Orchestra: with pianist András Schiff. Kurt Sanderling conducts Beethoven's piano concertos two, three and four; 7.30pm; Oct 7

GALLERIES
Royal Academy
Tel: (0171) 439 7438
● From Manet to Gaugin: Impressionist and post-Impressionist paintings from Swiss private collections; to Oct 8

OPERA/BALLET
Royal Opera House Tel: (0171) 304 4000
● Arianna: by Goehr. World premiere directed by Francesca Zambello and conducted by Ivor Bolton. A mixture of contemporary and Baroque music, reinterpreting the myth of Ariadne's abandonment by Theseus. Soloists include Susan Graham, Anna Maria Panzarella, Sheila Nadler and Axel Köhler; 8pm; Oct 4
● The Marriage of Figaro: by Mozart. Conducted by Bernard Haitink/David Syrus and directed by Patrick Young. Soloists include Felicity Lott/Cheryl Studer, Andrea Rost/Barbara Bonney and Robin Leggate/Ryland Davies; 7pm; Oct 3, 7
● Tosca: by Puccini. Conducted by Simone Young and directed by Jeremy Sutcliffe. Soloists include Galina Gorchakova, Johan Bohta and Francis Egerton; 7.30pm; Oct 5, 9

THEATRE
National, Lyttelton Tel: (0171) 928 2252
● Wild Oats: by John O'Keefe, directed by Jeremy Sams. A palpable actor descends upon a sleepy Hampshire village; 7.30pm; Oct 2, 3 (2.15pm)

■ NEW YORK

GALLERIES
Metropolitan Tel no: (212) 879 5500
● John Singleton Copley In America: portraitist of choice for affluent Bostonians and New Yorkers in the 18th century before leaving for England. Included are portraits of Samuel Adams, John Hancock and Paul Revere; to Jan 7

■ PARIS

CONCERTS
Champs Elysées Tel: (1) 49 52 50 50
● National Orchestra of France: with pianist Viktoria Postnikova. Guennadi Rojdestvenski conducts Prokofiev's "Concerto No.1", "Concerto No.4" and "Concerto No.5"; 8pm; Oct 5
● National Orchestra of France: with pianist Viktoria Postnikova. Guennadi Rojdestvenski conducts Prokofiev's "Concerto No.2" and "Concerto No.3"; 8pm; Oct 7

GALLERIES
Centre Georges Pompidou Tel: (1) 42 77 12 33
● Man Ray: recreation of the atmosphere of Ray's post world war two workshop where he produced various furniture. This exhibition consists of paintings, drawings and photographs from the workshop archives; from Oct 4 to Jan 29
● Surrealistic Designs: vision and technique. About 60 masterpieces by artists such as Ernst, Masson, Brauner, Dali, Miró and Picasso; from Oct 4 to Nov 27
Musée d'Art Moderne, Ville de Paris Tel: (1) 47 23 61 27
● Louise Bourgeois: sculptures and drawings from 1938-1995. Significant art works that chart her different styles; to Oct 8

OPERA/BALLET
Châtelet Tel: (1) 40 28 28 40
● New York City Ballet: performs the Robbins choreographed "Watermill" with music by Ito and "The Goldberg Variations" with music by Bach; 8.30pm; Oct 4, 5
● New York City Ballet: in a programme that includes the Balanchine choreographed "Concerto Barocco" and "Walpurgisnacht Ballet" plus Tanner's "Ancient Airs and Dances" and Martin's "Fearful Symmetries"; 8.30pm; Oct 6
● New York City Ballet: performs the Robbins choreographed "Watermill" with music by Ito and "The Goldberg Variations" with music by Bach; 8.30pm; Oct 7 (3pm)
● New York City Ballet: in a programme that includes the Balanchine choreographed "Concerto Barocco" and "Walpurgisnacht Ballet" plus Tanner's "Ancient Airs and Dances" and Martin's "Fearful Symmetries"; 8.30pm; Oct 7
Opéra National de Paris, Bastille Tel: (1) 47 42 57 50
● Romeo and Juliet: music by Prokofiev, choreography by Rudolph Nureyev and directed by Ermanno Florio/Vello Pähn; 7.30pm; Oct 2, 3, 6, 7

■ VIENNA

GALLERIES
Architektur Zentrum Wien Tel: (1) 522 3115
● Architecture and City: part of the "80 Days" Architecture Festival. This festival presents a broad range of discussions, concepts and projects in the field of urban architecture; to Nov 12

■ WASHINGTON

OPERA/BALLET
Kennedy Center
Tel: (202) 467 4600
● The Washington Ballet: performs Choo-San Goh's "Momentum" and world premieres choreographed by Graham Lustig and Lynn Cote; to Oct 1

THEATRE
Arena Stage Tel: (202) 488 3300
● Holiday Heart: by Cheryl L. West. A play about hope and redefining the family; to Nov 19
Kennedy Center Tel: (202) 467 4600
● Hello Dolly: by Jerry Herman. New production starring Carol Channing; to Oct 8
Roundhouse Theater Tel: (301) 933 1644
● Nora: by Henrik Ibsen, adapted by Ingmar Bergman and directed by Tom Prewitt. Drama with the doll-like young wife; 8pm; to Oct 8
Studio Theater Tel: (202) 332 3300
● Slavs!: Thinking About the Long Standing Problems of Virtue and Happiness. By Tony Kushner and directed by Dan DeRaey. A surrealistic montage of post-Soviet culture; 8pm; to Oct 8
Woolly Mammoth Tel: (202) 488 3300
● Watbanaland: by Doug Wright, directed by Lee Mikeska-Gardner. Surreal drama of life and longing in an overpowering society; 8pm; to Oct 8

■ ZURICH

GALLERIES
Kunsthaus Zürich
● Bruce Nauman: a comprehensive collection of works by the American artist known for his multimedia audiovisual installations and sculptures; to Oct 8

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(Central European Time)
MONDAY TO FRIDAY

NBC/Super Channel:

07.00
FT Business Morning

10.00
European Money Wheel
Nonstop live coverage until 14.00 of European business and the financial markets

17.30
Financial Times Business Tonight

Midnight
Financial Times Business Tonight

Samuel Brittan

A world without crystal balls

Is the slowdown in world growth temporary? Will it get worse? Or will the international economy bounce back into its next stage of recovery at the end of this year and in 1996?

The IMF World Economic Outlook, to be published this week, will at least recognise the extent of the pause and revise downwards its 1995 estimates for the main industrial countries. But the IMF forecasters have no more idea than the rest of us whether world growth will be weak, too vigorous or just about satisfactory in the coming year. Nor will they have any idea of whether the problems of an excessively weak dollar and excessively strong yen are behind us.

Meanwhile, the private sector forecasts now available leave one, as a former president of the Bundesbank once remarked to his economists, "confused at a higher level". The mainstream ones are typified by J.P. Morgan's World Financial Markets, which sets out its assumptions and reasoning with admirable clarity.

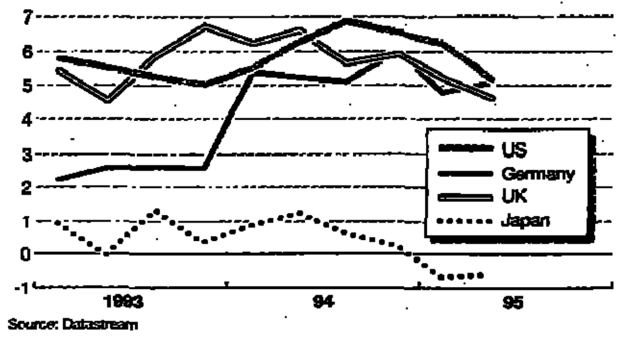
The centrepiece is a chart showing that, while stock building among European Union countries has plunged to zero, final sales are as high as they were in the vigorous recovery year of 1994. This suggests that, once business has adjusted its stock ratios, growth in the key industrial countries will return next year to a near normal rate just above 2½ per cent – and somewhat more for the US, Germany, Italy and Canada.

Meanwhile, inflation will remain subdued at well below 4 per cent, except for the UK and Italy. In Japan, deflation should give way to modest recovery and price stability.

As usual there is an opposition to this mainstream optimism, which mostly comes from the monetarist camp. The US Shadow Open Market Committee (a group of monetary vigilantes) worries that the growth of the "monetary base" (that is cash plus bank deposits with the Fed) is too slow to underpin recovery.

World economic trends

Nominal GDP (Annual % change)



Source: Datastream

Another monetary economist, Peter Spencer, suggests in a Kleinwort Benson paper that monetary growth in continental European countries is also too slow to sustain recovery. Patrick Minford of Liverpool university, although hardly a monetarist nowadays, points to structural features of the world economy which make deflation a worse danger than inflation.

The main country in which monetary growth may be too fast rather than too slow is, once again – after an interval of virtue – Britain. UK monetary numbers have not proved reliable enough to provide a policy anchor, but have a habit of mattering just when policymakers have sidelined them.

These contradictory and equally plausible analyses of the world industrial economy underline the conclusion of John Kay in Friday's Financial Times: that we do not have the ability to forecast the large economic aggregates. What Kay did not tell us was how to live with this ignorance.

One starting place would be to put more emphasis on what is actually happening now – which is difficult enough to diagnose. Policymakers should then act only when there is a clear and present danger of either recession or inflationary excess of demand. A point can be reached where it is better to act at the risk of aggravating fluctuations rather than to do nothing and take the risk of further deterioration.

Another moral is that the estimates of underlying real growth and capacity gaps – however interesting for analysis – are far too fragile a basis for policy. We still have a poor idea of how far monetary changes divide between effects on output and on inflation in the short run. It is for this reason that one of the most dispassionate of US monetary thinkers, Bennett McCallum, argues in the current issue of *Economic Affairs* for a nominal gross domestic product objective. This can be translated as a national cash limit. It would ensure that inflation stayed near to target over an average of several years (the best we can do) and that policy supported sustainable growth.

The rough data available suggest that nominal GDP growth has fallen to excessively low levels in recent quarters in the main industrial countries. But, apart from Japan, the slowdown has been less marked on a year-on-year basis. Only in Japan is there a clear and present danger, on which the authorities have belatedly acted. There may be a need for a German demand stimulus, which is concealed by data problems arising from the unification of statistics. But in the US and UK, the data suggest strongly that policy should be put on hold.

Meanwhile, it is more important for the finance ministers in Washington next week to engage in contingency planning and structural improvement than to argue about the crystal ball.

Bittersweet taste of expansion

Suchard has had to convince the sceptics over its move into eastern Europe, says Guy de Jonquières

The decrepit bus splutters to a halt on an *empty country road in* north-east Ukraine. With practised nonchalance the driver leaps from the cab, pokes around in the engine and coaxes it back to life. A few kilometres later the same routine happens all over again.

"That's a strength of this country," says a passenger, one of a group of Kraft Jacobs Suchard executives on their way to a Ukrainian confectionery plant, which the multinational food manufacturer acquired earlier this year. "People here have lived with old equipment so long, they have had to find ways to keep it running."

KJS has needed a similar combination of resourcefulness, determination and phlegm in the past three years, as it has forged ahead with an ambitious strategy to stake out a leading position in food markets across eastern and central Europe.

The company's expansion, in which it has so far invested \$300m (£189.6m), is a case study of the experiences awaiting western manufacturers which set out to exploit a region rich in potential opportunity but strewn with pitfalls and uncertainties.

KJS, which has annual sales of almost \$10bn in western Europe, is a late arrival in the east. When competitors, such as Nestlé, Unilever and Danone, began moving in soon after the Berlin Wall fell, KJS was too absorbed with its takeover by Philip Morris, the US food and tobacco group, to join the fray.

To catch up it has looked to far-flung markets not yet dominated by rivals. Since 1992 it has acquired 11 businesses in nine countries, including the former Soviet Union and Bulgaria. "It was a case of move fast, or forget it," says Mr Bernhard Huber, head of central and east European operations.

Even so, KJS executives in Europe had to argue persuasively to get sceptical US bosses to back plans to plunge into countries such as Romania. "American colleagues were reading newspaper articles saying you'd have to be nuts to invest there," Mr Huber recalls.

From the outset, KJS decided to manufacture in each country, judging that high tariff barriers and unstable currencies made importing uneconomic. It chose to focus on confectionery and coffee, of which it is Europe's second largest producer, because there were already markets for these products and local factories for sale.

The company says it has always chosen acquisitions which did not need extensive restructuring and has negotiated with plant managers before approaching governments. That way it avoided unpleasant surprises when it took ownership.

In most cases it was greeted by able and eager workforces, but factories suffering from years of neglect and underinvestment. Hygiene standards were often abysmal, accounting and stock systems almost non-existent and quality poor. Frequent shortages of raw materials had led some plants to substitute products such as peas and buckwheat for cocoa fat.

Although KJS is steadily refurbishing its new plants, it has found that just sprucing them up and improving purchasing and production line management has yielded rapid gains. At the plant in Trostanec, Ukraine, acquired in February, output in the first half of this year was up 26 per cent, while product shelf life has been extended and 45 new products have been launched.

"Basic chocolate-making technology has been known for centuries," says Mr Nikolay Shwets, the plant director. "But everything depends on doing lots of little things right. We couldn't do them in the past because we lacked money and knowhow."

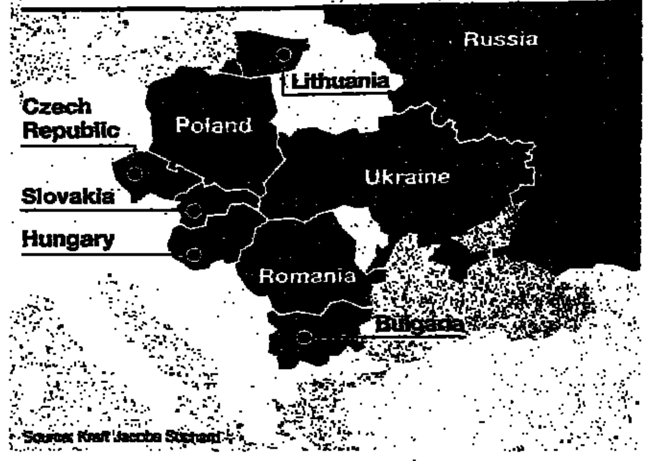
Mr Shwets, like his fellow managers, has kept his job since the acquisition. The only expatriate at the plant is a temporary consultant, partly because few western executives would choose to settle in Trostanec, a run-down community without a hotel or restaurant.

The region's biggest challenges lie outside the factory gates, however. Although sugar, flour and milk are widely produced in eastern Europe, reliable sources of good-quality supplies are still rare. In Romania, KJS has to buy milk powder abroad, and it may start importing sugar in Ukraine after a recent government decision to raise the domestic price to double the world level. Packaging of acceptable quality is often hard to procure locally.

Kraft Jacobs Suchard: advancing eastwards

Acquisitions

Dates	Company	Country	Operation	Cumulative investments to date (\$m)
Sep '92	Figaro	Slovakia	Confectionery	15
Dec '92	Csemege	Hungary	Confectionery/coffee	20
Apr '93	Olza	Poland	Confectionery	10
Jul '93	Dadak	Czech Rep.	Coffee	5
Oct '93	Lietuva	Lithuania	Confectionery	10
Nov '93	Chorzale	Poland	Cheese	15
Dec '93	Svoge	Bulgaria	Confectionery	10
Jan '94	Polana	Romania	Confectionery	10
Feb '95	Ukraina	Ukraine	Confectionery	5
Jun '95	Petroconf	Russia	Confectionery	5



Source: Kraft Jacobs Suchard

The Trostanec factory has also ended up paying all the town's electricity bills after the authorities threatened to cut off supply because residents could not afford a steep increase in prices.

KJS was greeted by able and eager workforces, but factories suffering from neglect

When the generating plant recently ran out of cash to buy fuel, the factory agreed to bail it out with a \$100,000 advance payment each quarter.

Rampant inflation also complicates the company's pricing policy. "Missing a monthly price rise can make the difference between an annual profit or loss," says one executive. But pushing through increases in countries with limited disposable income can be tricky. In Romania KJS has recovered in higher prices this year less than half the 30 per cent jump in inflation.

To get its products to market, KJS is building distribution networks from scratch by assigning exclusive territories to local entrepreneurs. It says the system is working well, although it has yet to achieve nationwide coverage in some countries and is often unsure which retailers are selling its products, and in what quantities.

These handicaps have not deterred the company from launching new marketing initiatives. In Romania, where it expects the chocolate market to grow by two-thirds in the next five years, it recently launched a locally developed chocolate brand, backed by a \$200,000 advertising campaign.

The company's willingness to pioneer largely uncharted markets has earned it high marks from host governments, eager to use it as a showcase to attract other foreign investors. Indeed, top KJS executives are sometimes treated like statesmen. In Bucharest recently they were swept from the airport to a meeting with the prime minister in a fleet of gleaming Mercedes saloons with a siren-blaring police escort.

The company says such high-level access has proved invaluable in cutting through bureaucratic obstacles. Committed as government leaders in the region may be to economic reform, attitudes among minor officials have changed much more slowly.

KJS is also keenly aware that the political and economic balance in the region remains fragile. "One bad election in any of these countries, which brings a stupid government to power, and it will lose a lot," Mr Huber says.

So far, though, the company is well satisfied with its east European acquisitions, which have total annual sales of \$600m and are averaging a 16 per cent return on investment. In Lithuania it has recovered its initial investment in two years. Its only disappointment is a poor performance in Hungary.

The company expects to invest up to \$50m annually in the region in the next five years, much of it to modernise plant. However, with monthly wages only a tenth or less of those in its west European factories, it is in no rush to install highly automated equipment. "If we over-invested, we would never make a profit," says Mr Ray Viault, KJS president.

The company is also considering acquisitions in Armenia, Kazakhstan and Georgia and may build a second confectionery plant in Russia.

According to Mr Huber, in a region still beset by many political and economic uncertainties, geographic diversification is not just a matter of expanding sales. It is also an insurance policy. "Are we hedging our bets?" he says. "Absolutely. Spreading risks is what this is all about."

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). Translation may be available for letters written in the main international languages.

Scale of informal investment shows enterprise taking root

From Dr C.M. Mason and Prof R.T. Harrison.

Sir, Richard Gourlay draws the wrong conclusion in his article "If there's nothing ventured . . ." (September 23/24). He points to the limited amounts of finance invested by British Venture Capital Association (BVCA) members in start-ups and young companies. However, even in the US – the home of venture capital – business angels are a much more significant source of finance for start-ups than venture capital funds.

The positive conclusion which should have been drawn from Gourlay's article arises from his comment that many successful entrepreneurs are becoming business angels by providing small amounts of seed and start-up finance (and presumably also contributing their "knowhow" to the businesses in which they invest).

Five years ago a report of the Advisory Committee on Science and Technology (Acost), "The Enterprise Challenge", commented on the underdeveloped nature of the informal venture capital market in the UK compared with the US.

The report went on to state that "an active informal venture capital market is a prerequisite for a vigorous enterprise economy".

The evidence that has accumulated since 1990 on the growing scale of business angel activity suggests that business angel investment in unquoted businesses is at least twice as significant (in terms of amount invested) as institutional venture capital and may be up to four or five times as significant.

This scale of informal investment is one of the most positive indicators that an enterprise culture is taking root in the UK.

C.M. Mason,
University of Southampton,
Southampton SO17 1BJ, UK
R.T. Harrison,
University of Ulster

No stake in the world of water

From Mr Nicholas Hood.

Sir, The water industry utterly rejects the "true nature of the problem" as regards windfall taxes put forward by Dr Jörg Schimmelpfennig (Letters, September 27).

First because such taxes are not "allocatively neutral" if they reduce the amount of money available for investment or make that investment more expensive.

Second because the water industry's profits are not "excessive". All the industry's financial parameters were weighed carefully by the regulator last year in his determination of future price caps.

Even though it is prices rather than profits that he regulates, he is required to do no more than provide for the water companies to maintain financial viability in deciding what those price caps should be.

Third, because the UK's particular regulatory system was chosen specifically to encourage efficiency, which it has done.

If "justice" is the issue, will the Labour party tax all businesses with low effective rates of corporation tax? There are many such outside the water industry.

It is revealing that Mr Geoffrey Robinson (Letters, September 28) asks if shareholders can really complain if the balance between them and the other stakeholders in the business is redressed.

With respect to him, he clearly has not understood that the government and taxpayers are no longer stakeholders in these businesses.

These are privately owned businesses, whose principal stakeholders are their customers, their shareholders and their staffs.

Nicholas Hood,
chairman,
Water Services Association,
1 Queen Anne's Gate,
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Small saving

From J.D. Tunnicliffe.

Sir, Mr J.M. Harper's generous benefits proposal (Letters, September 25) on behalf of affluent people overlooks the fact that the affluent are a small minority, and the savings would be insignificant financially.

Big savings can be made only from big areas of expenditure, which means here expenditure on the many, not on the few.

J.D. Tunnicliffe,
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Look at inputs other than market-oriented strategies

From Sir Arthur Knight.

Sir, Both George Soros and Samuel Brittan ("Even a billionaire can have ideas", September 28) might consider extending their explorations into less familiar areas. My own experience and study suggest to me that companies should become more a focus of attention.

The quality of their market-oriented strategies is a key factor in the whole debate about how human affairs could be better managed. But many inputs, other than market-oriented strategies, bear upon the performance of companies, and thus upon well-being in the communities in which they operate.

Of these inputs, cultures rank high for consideration, both those within companies, and those within communities. Samuel Brittan's use of the "communitarian" label obscures that issue.

Arthur Knight,
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Opportunity in India for car part makers

From Prof J.D.P. Whiles-MacConNamara.

Sir, The observations of Mark Nicholson and Haig Simonian ("Carmakers take their partners", September 28) headline investment opportunities in India's fast-growing vehicle market without specifically saying where these opportunities lie.

As may be implied from their article, most of the new entrant vehicles will be completely knocked down with very little local content. This lack of local content, which is likely to continue for some time, is due to a chronic shortage of capacity in the components sector and the inability of local manufacturers to meet the high quality standards demanded by European and Japanese carbuilders. There is also an almost total absence of components research and development and systems assemblers.

What is very clear is that British automotive components manufacturers can and should enter into joint ventures with their Indian counterparts before this gap is filled by Japanese, Korean, US or other foreign components makers.

While British companies, such as T & N, Lucas and GKN already have a significant presence in India, tremendous opportunities exist for UK small to medium enterprises which make up the backbone of the British automotive components supply industry.

The message is simple: more automotive components manufacturers from the UK should take a serious look at India.

After all, it is one of the last major automotive markets with a huge latent requirement for components, and the British don't even have to learn a foreign language to do business there.

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FINANCIAL TIMES

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Monday October 2 1995

A fairer Exchange

It is sometimes hard to interpret the signals emanating from the upper floors of London's Stock Exchange tower. On the one hand, the exchange's leadership regularly professes its enthusiasm for competition and innovation. On the other, it has shown a disturbingly regular tendency to act in a way that casts doubt on that commitment – by issuing threats to potential competitors or by impeding its members in using rival market services.

The events of the past week are thus doubly welcome. First, the Stock Exchange ended a damaging row with a joint venture founded to allow private investors to deal in shares on the Internet. Then on Friday it agreed to amend a rule that had obliged member firms not to display better prices on other markets than they show on the exchange's own system.

The second of these developments is the more important. It means that, within a few months, the exchange has substantially overhauled its rule book, modifying many of the privileges of, and obligations on, its marketmaking members. The basis now exists for fair competition with alternatives such as the Tradepoint system, which has just started offering an electronic order-matching service alongside the exchange's quote-driven system.

This is a recognition of reality that can only benefit London as a centre of international and domestic equity trading. The old worry that fragmentation of markets would damage price formation – a concern that underpinned many of the exchange's old rules – has been superseded. It is now generally acknowledged that development of diverse markets is a logical answer to investors' divergent trading preferences. Where markets are fragmented, and reasonably transparent, technology normally enables differences between them to be arbitraged away.

That said, the rule change will not in itself erase worries about the Stock Exchange's true attitude to competition. The move came only after incessant prodding from regulatory authorities such as the Office of Fair Trading, the Securities and Investments Board and the Treasury. And the exchange's erratic behaviour towards the Internet venture – the sudden withholding of price data and threat of legal action, both subsequently dropped – merely augments the impression that it has not fully grasped what the end of monopoly means.

Amid intense global rivalry in financial services, the exchange cannot rely on old methods of coercion to maintain its position. Nor can it hope for undue advantage from its dual role as regulator and service provider.

Big institutional investors now worry constantly about squeezing down transaction costs. Moreover, many international securities firms want to use an order-matching system. The only way for an exchange to prosper is to offer competitive services. Regulators will be justified in keeping an eye out for future abuses of the Stock Exchange's still overwhelming dominance in UK equity trading.

China calling

British diplomats cannot resist a sense of satisfaction over this week's visit to London by Qian Qichen, the Chinese foreign minister. This is his first trip to the UK in three years and an important milestone in the process of rebuilding relations that began in earnest with Mr Michael Heseltine's visit to China in May.

After the acrimony surrounding Hong Kong's electoral reforms, the mere fact of Mr Qian's arrival is a positive sign. But mood music is not enough. There are serious matters to discuss, especially after the resounding defeat for pro-Beijing parties in the recent Legislative Council elections.

Hong Kong's return to China is only 21 months away. Urgently needed are arrangements for consultation between the existing civil service and the incoming Chinese administration. Otherwise day-to-day government could grind to a halt. No one now expects Mr Qian's visit to yield any flashy deals. If it produces a firm commitment to collaborate at a practical level, it may still be proclaimed a success.

The snag is that cosy bilateral arrangements may no longer suffice. British officials hope the elections – and China's stated intention to disband the new LegCo as soon as it takes over – will not dominate the talks, on the grounds that the arguments are well-rehearsed on both sides. Britain wants legislative continuity through 1997; China rejects electoral arrangements put in place by the outgoing power.

But the handover cannot run smoothly if Britain and China try to pretend that the vote never actually took place. Democratically elected LegCo members will understandably protest if the colonial government chooses to ignore them and consults instead exclusively with China's appointed Preparatory Committee.

The real imperative this week is thus to find some common ground on how to handle LegCo. The UK should reassure China that Mr Chris Patten, Hong Kong's governor, will veto any bills that really offend, such as one to reopen this summer's agreement on the court of final appeal.

China should agree to swallow some pride and tone down its opposition to less fundamental LegCo decisions. The idea of increased welfare spending goes against the grain. But proposals from Mr Martin Lee's Democrats for such an increase coupled with a cut in corporate profits tax might well revive Hong Kong's weakening economy.

It is generally accepted that a strong economy is needed for a smooth handover, but the final run-up to 1997 is beginning with faltering consumer confidence and employment worries. Rows over LegCo will only exacerbate that loss of confidence. Confronting the election result is no easy task for either side. It is a reminder to Britain that democracy should have been introduced sooner, and to China of its own unpopularity. But the handover will not run smoothly if the task is shirked.

Peace dividend

Last week's agreement on extending Palestinian self-government throughout much of the Israeli-occupied West Bank was the most important step so far towards peace in the Middle East. Those backing the peace process now badly need to provide development finance flows to the region in a way which demonstrates that detente and moves toward economic integration pay.

Western sponsors of the peace process, however, are sending confused and competing signals – summed up in the dispute over the merits of a proposed Middle East and North Africa development bank. This has pitted an enthusiastic US against a majority of European Union members, which strongly back (and are willing to finance) regional integration but are sceptical about the need for a bank. No one doubts the need for an institution to anchor regional co-operation; but why a bank?

European reluctance to create another lending bureaucracy is well-founded. The new institution would take two years to get off the ground and, with a proposed capital of a mere $5bn, would be too small to make much difference.

Moreover, there is little economic justification for a new development bank. Several institutions already serve the Middle East, including the Arab Fund for Economic and Social Development, the World Bank, and the European Investment Bank. Over the 1994-98 period, the West Bank and Gaza alone will receive $620m in direct aid from the EU budget and another $310m will be available in loans from the EIB. Moreover, institutions such as the World Bank say it is not funds but viable projects that are lacking.

European states opposing the bank have come up with a convincing alternative. They want an "intermediation facility" dedicated to the region, to promote cross-border co-operation by identifying projects and studying their feasibility, and then turning for finance to institutions such as the EIB and World Bank with a track record in project-funding. That way, western donors will be allowed time to evaluate further the region's needs and make a decision on a bank at a later stage.

The US will only accept an intermediation facility if it is accompanied by a commitment now to set up a bank. The Clinton administration has turned the bank into a political totem, to the extent that US officials say they are ready to go ahead without European support.

Such a move, however, would be risky. Despite the administration's commitment to the bank, the project could still end up without enough resources. The absence of backing from many European states will give the US Congress – already hostile to foreign aid in general – a strong argument against authorising a sizeable US contribution. The countries of the region would also be less than satisfied with an under-endowed institution reliant mainly on US backing.

Regulators in Europe and the US oppose the creation of a Franco-German alliance, writes **Alan Cane**

Clash of the telecoms titans

With competition intensifying in the world's telecommunications markets, Europe's telecoms operators are battling for a share of the lucrative market to provide international telephone services to multinational companies.

The stakes are large, since this sector of the market provides a high proportion of the revenues and most of the profits for most operators. Industry analysts believe that only a handful of "global supercarriers" will emerge, capable of providing a complete range of telecoms services to such companies.

However, regulators in Brussels and Washington are blocking attempts by Deutsche Telekom and France Télécom, two of Europe's largest operators, to form alliances to bid for such business. Consent is being withheld in an effort to persuade France and Germany to accelerate the pace of liberalisation in their domestic markets.

Mr Michel Bon, chief executive of France Télécom, says that the alliances are "vital" to his company's future. And Mr Wolfgang Bötsch, Germany's telecoms minister, says that forming larger groups is essential if Europe is to compete in world markets.

The reasons are clear. Full liberalisation for all European Union members will come by January 1 1998. On or before that date, telecoms operators in most EU countries will be exposed to competition for the first time in telephone voice services and the provision of the telecoms network.

But most European operators, state-owned and monopolistic, are ill-equipped to face the levels of competition that are expected to develop. Prices will decline even more sharply as competition bites, and profitability will fall in parallel. Operators that lack the resources to invest are unlikely to be competitive in international markets.

In the UK, where full competition has been allowed since the early 1990s, prices – once the highest in Europe – are now among the lowest. More than 150 licensed operators are in the UK market, many of them cable companies that also offer television and other entertainment to homes.

Aggressive US operators such as the "Baby Bells", the US regional telecoms companies, are already seeking to enter the European market. AT&T, the largest US long-distance operator, is planning to offer telephone services in the UK as a first stage in entering Europe's telephone markets. Two weeks ago, it announced plans to spin off its computing and equipment manufacturing arms to concentrate on the core telecoms services business.

Faced with this prospect, the leading European telecoms companies are seeking alliances that will create organisations large enough to compete with the US operators. One such venture is Unisource, which brings together the national operators of the Netherlands, Spain, Sweden and Switzerland.

Another is "Concert", formed by British Telecommunications, the dominant UK operator, and MCI, the second largest US carrier. Although it has yet to make money, Concert has already succeeded in winning a share of European corporate business. When a group of Europe's largest companies went shopping collectively this year for carriers capable of providing them with services across national boundaries, they settled on the BT/MCI alliance and AT&T.

However, the attempt to form an alliance between the two state-owned monopolies in France and Germany has so far been blocked by European Union regulators. Code-named "Atlas", it is a central pillar of both countries' telecoms strategies. Mr François Fillon, minister for information technology in the French conservative government which took office in May, says: "The government will support by all appropriate means the realisation of the alliance."

His reasons go well beyond a strengthening of industrial ties across the Rhine. The alliance, Mr Fillon says, "provides the means for the two operators to achieve the considerable investments required for the development of multimedia services and to secure a position in the world market". The French government, with a budget deficit forecast to reach FFr322bn (£41bn) this year, is unlikely to be able to finance such expansion.

Yet Mr Karel Van Miert, the European Union's competition commissioner, has steadfastly withheld his approval. Mr Van Miert is using both governments' desperation to see Atlas go ahead as a lever to press for faster liberalisation of the two countries' telecoms markets.

Mr Van Miert's specific objection to Atlas is the dominant position of the partners in their domestic markets, which could allow them to exclude new competitors. These include utility companies in both countries which already have alternative cable networks along railway lines, between electricity pylons or under canals.

In Germany, utilities such as RWE, Veba and Viag want to provide network services to corporate customers before 1998. In France, SFR, the mobile telecoms arm of Générale des Eaux, the French water and communications group, plans to invest heavily in telecoms to become the largest French operator after France Télécom, according to Mr Jean-Marie Messier, its managing director.

A draft directive has been prepared that would require member states to allow such alternative networks to be used for the provision of all services, with the exception of public voice telephony, by January 1 next year. But Mr Van Miert hopes to persuade France and Germany to make faster progress; in return, he might give consent to Atlas.

The French government and France Télécom say they have given sufficient commitments to continued liberalisation and guarantees of fair competition to secure approval from Brussels. A telecoms licence has already been granted to SNCF, the national railway network. But the Germans remain reluctant to license alternative networks because, they say, there is no regime for regulating competition in place yet.

Last Friday, Mr Bon of France Télécom and Mr Ron Sommer, chief executive of Deutsche Telekom, met Mr Van Miert in the latest attempt to secure approval for their Atlas link-up. Also present were Mr Fillon and Mr Bötsch – an indication of the importance both countries attach to a successful outcome.

Afterwards, Mr Fillon said France and Germany would be prepared to open alternative networks to competition from next July in return for approval for Atlas. However, Brussels officials said that there were other obstacles to the alliance, including the dominance that the two companies would have in data communications services.

For the French and German telecoms giants, however, approval for Atlas from Brussels would represent only the first stage in their international ambitions. They plan a second alliance, called Phoenix, with Sprint, the third largest US long-distance carrier, to provide services to business customers around the world. Earlier this year, the two European operators agreed to take a 20 per cent stake in Sprint to cement the alliance.

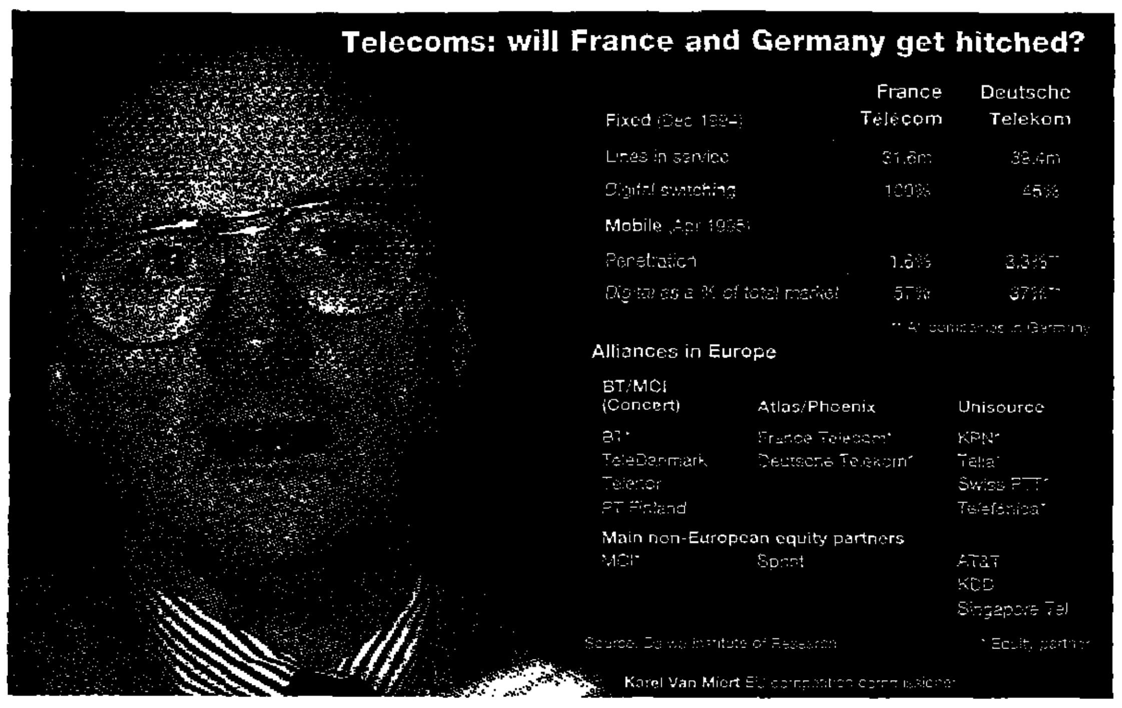
This has fallen foul of US regulators, which have been pressing for faster liberalisation in Europe on behalf of US operators. They are concerned that the Atlas alliance might freeze them out of European markets.

The share purchase has been approved by the US justice department, in line with its policy of allowing foreign companies to take stakes of up to 20 per cent in US operators. But Phoenix has yet to get the nod from the Federal Communications Commission, the US telecoms regulator. Observers agree that it is unlikely to give its assent until the French and German markets are fully liberalised.

The future may become clearer when the leaders of Europe's largest telecoms companies gather in Geneva this week for Telecom '95, the industry's quadrennial conference. At the end of the week, Geneva will then host World Trade Organisation negotiations designed to open telecoms markets.

But those negotiations are unlikely to make much progress unless the EU brings forward full liberalisation – something not yet on the cards. While Atlas may soon get the go-ahead, it could be some years before the Phoenix flies.

Additional reporting by John Ridding and Emma Tucker



Telecoms: will France and Germany get hitched?

Fixed (Dec 1994)	France Télécom	Deutsche Telekom
Lines in service	31.6m	39.4m
Digital switching	100%	45%
Mobile (Apr 1995)		
Penetration	1.6%	3.3%**
Digital as a % of total market	57%	87%**

** All companies in Germany

Alliances in Europe

BT/MCI (Concert)	Atlas/Phoenix	Unisource
BT*	France Telecom*	KPN*
TeleDanmark	Deutsche Telekom*	Telia*
Telenor		Swiss PTT*
PT Finland		Telefónica*
Main non-European equity partners		
MCI*	Sprint	AT&T
		KDD
		Singapore Tel

Source: Daiwa Institute of Research

* Equity partner

Karel Van Miert EU competition commissioner

Better ways to measure progress

MICHAEL PROWSE on AMERICA

It may be time to consider new yardsticks of economic and social progress. Gross domestic product has grown robustly for years in the US and many other countries. Yet ordinary families believe they are worse off than in the past. The official data do not appear to measure economic life as it is experienced by real people. They ignore the "feel bad" aspect of growth.

GDP has acquired an extraordinary aura of authority over the years. Yet it is worth recalling that national accounts in their present form were invented quite recently. They were a response to the needs of the generation that endured the Great Depression and fought in the second world war. The priority then was to find ways of utilising spare resources, first to combat unemployment and then to further the war effort. A measure of "final monetary demand" was essential if Keynesian policies were to succeed. GDP fitted the bill perfectly. And, in an age of slide rules, it was not practicable to supplement it with more sophisticated measures of economic well-being.

Today's needs are different. Our ability to sustain the growth of monetary demand is not in question. The focus of attention is now on ecological and social concerns. After decades of rapid industrial expansion, we worry that growth may inflict irreparable damage on the natural environment. We also worry that the social fabric of nations is being ripped apart. Economic growth will not bring happiness if the quality of life is simultaneously being destroyed by social shortcomings, such as rampant crime, family breakdown, inadequate education and so forth.

The Roosevelt generation devised the statistical measures it required to solve its problems. Should we not do the same? This seems to be the thought underlying two recent attempts to devise broader measures of economic well-being. A group at the World Bank argues that economic health is best measured by a broad yardstick of wealth or net worth, not by the annual flow of monetary income. Instead of simply focusing on "produced assets" – the products of the market economy – it draws attention to three other classes of assets: natural capital (such as forests and mineral deposits); human resources (the value represented by education) and social capital (the value of human organisations and institutions).

A Californian think-tank called Redefining Progress has a somewhat similar philosophy. It is promoting a new measure of economic health called the Genuine Progress Indicator (GPI), which adjusts for many social and ecological factors ignored in GDP figures. The group has persuaded 400 US economists to sign an anti-GDP manifesto stating that "new indicators of progress are urgently needed to guide our society: ones that include the presently unpriced value of natural and social capital". Luminaries backing the GPI initiative include Prof Herbert Simon, a Nobel economics laureate, Alvin Toffler, the futurologist, and Ted Turner, the media magnate.

How economic well-being is measured makes a bigger difference than you might suspect. Measured by per capita GDP, the US is one of the world's richest nations. Yet it ranks a poor 12th on the bank's per capita wealth measure, behind countries such as Norway and Denmark. Per capita GDP figures indicate that the US has been growing robustly for decades. Per capita GPI, on the other hand, peaked in 1969 and has since fallen substantially.

These large discrepancies are not altogether surprising if you remember that the alternative measures are trying to capture wealth not reflected in monetary transactions. The bank team discovered, to its surprise, that the value of human resources accounts for about two-thirds of the typical nation's total wealth. One reason is that people tend to become more valuable over time: they learn as they generate income and so become capable of generating more income. Produced assets such as durable goods and factories, by contrast, rapidly become obsolescent. Yet this principal source of national wealth is ignored in conventional national accounts.

The rationale for GPI is explored at length in the October issue of the Atlantic Monthly magazine. The main reason why it shows a decline in US economic welfare is because it insists on fully accounting for the depletion of non-renewable natural resources, the cost of pollution and many other forms of environmental degradation not captured in GDP figures.

But it also allows for many aspects of social welfare ignored in official statistics, such as the economic value of housework, volunteer labour and leisure time. It treats many types of market transaction as negatives rather than positives: for example the spending associated with crime, family breakdown and commuting are regarded as costs not benefits. It even adjusts for income distribution, deeming greater inequality a negative for social and economic progress.

I have reservations about all "macro" indicators. Any attempt to measure "social welfare" involves a host of subjective judgments. A measure such as GDP that fails to value natural capital or non-market labour can hardly be construed as neutral or objective. The issue is not whether we have macro indicators, but whether we have indicators that are relevant to people's needs. We cannot live forever on the Roosevelt generation's intellectual capital. We have to move beyond GDP.

OBSERVER

Spirit of free enterprise

■ A living example of a push-me, pull-you beast has been spotted in one of the darker corners of the European Union, Finland. It goes by the name of Alko, the state-owned Finnish retail alcohol monopoly.

The push-me side is that Alko is in the business of selling booze. The pull-you is that it is also one of the state's front-line weapons in restraining customers from drinking too much of the stuff, achieved by fixing very high prices and very limited opening hours – no evenings or weekends.

But it looks like some strenuous Darwinism is about to put paid to the beast. For Alko has decided to launch its first advertising campaign.

Not that it's trying to do anything so sordid as sell more alcohol, oh dear me no. It's merely highlighting its expertise and product range. Well that's the official explanation, anyway.

Unofficially – and Alko officials become a bit fuddled when you ask for precise figures – it's clear that since January, when Finland joined the EU and its parent company lost its alcohol production, wholesale distribution and import monopolies, Alko's sales have been considerably diluted. Which is a sobering thought for Finnish government ministers, watching all those stiff alcohol taxes ebb slowly away.

Wheel of fortune

■ The International Finance Corporation has number-crunchers by the yard. That none of them can write decent English is perhaps not much of a problem, but it certainly deters Observer from wading through its reports.

The IFC has just published a report prefaced by what is probably the daftest extended metaphor ever to appear. Titled "Privatisation is a Two-Horse Cart", it's worth quoting a small extract:

" 'To privatise,' said an agency official, 'is to drive a two-horse cart. The cart is the enterprise in question. One horse is called Political Goals and is flighty and fickle; the other is called Economics, and is slow and steady. They have to pull the cart along the Road to Privatisation, which is a rough, boulder-strewn track. The cart is full of cases of vintage wine, which is unfortunate because the horses, as often as not, are pulling in different directions. The bottles of wine . . . are labelled improved efficiency, high sales price, effective corporate governance, economic investment and so on.' "

Excuse me, but I think that your wheel has just dropped off.

Real or false?

■ Brazilians are discovering the downside of a stable currency – forgery. In the old days there was little point counterfeiting Brazilian bank notes because by the time the ink was dry genuine notes normally had increased their number of zeros, thanks to inflation.

Now, with inflation sharply lower since the introduction of the Real currency 14 months ago, a massive forging plot has been unearthed – in Germany, of all places. According to the main evening television news programme, *Jornal Nacional*, the forgers are selling the false notes into Brazil's black market for a quarter of face value.

The only regret for many of the populace is that the false notes are Reals, not D-Marks.

Tart departure

■ Stephen Mulholland's relationship with the Australian media during his three years at the helm of John Fairfax, the country's leading newspaper publisher, has not always been harmonious.

There was, for example, the pavement scuffle with a TV crew, when Mulholland's spectacles went flying and the executive's boot appeared to make contact with a cameraman.

But so benign was the atmosphere at Friday's press conference to explain his departure – and the simultaneous arrival of Bob Mansfield from Optus – that someone even asked Mulholland what he thought of the Australian media. "It's variable," came the South African's tart reply.

He subsequently added "vigorous" and "boisterous", and admitted that he had difficulty with the partiality of its reporting – the degree to which "a journalist's opinion makes a headline".

As for regrets, well, he had a few. "That the share price didn't get as high as I wanted . . . and I wish I'd moved out of Broadway [the old offices in a fairly industrial area of Sydney] sooner . . . God, that was a dreary place to be."

Ample seating

■ Remember US senator Bob Packwood, who resigned recently following accusations of sexual harassment?

Seems that he's moving to Kansas; he's heard that senator Nancy Kassebaum's seat is up for grabs.

The Financial Times

100 years ago

Banking notes
Hardly a week passes now but what some fresh financial combination is announced on the Continent, the object of which is to finance South African shares or to assist goldmining enterprises in South Africa. The latest combination is a very strong one, consisting of some of the strongest bankers in Germany, together with the Exploration Company. The new company, which has only this week been registered in Berlin, is entitled the African Mining and Financial Association, and the capital is £550,000 – say ten million Marks. The German banks interested are the Disconto Gesselschaft, the Deutsche Bank and M. Friedlander, of Berlin.

50 years ago

US Business and strikes
The epidemic of labour disputes which is now sweeping the US is a disturbing reminder that a prospect of virtually unlimited markets for some way ahead will be insufficient to save Washington from a great deal of political conflict before the next Congressional elections.

FINANCIAL TIMES
Monday October 2 1995

Abacha announces 1998 transition to civilian rule

Nigeria shows clemency to alleged coup plotters

By Paul Adams in Lagos

General Sani Abacha, Nigeria's head of state, yesterday bowed to international pressure and commuted death sentences on 13 alleged coup plotters, but resisted calls for an early return to civilian rule.

The decision not to execute those sentenced to death and to reduce life sentences passed on other alleged plotters, including General Olusegun Obasanjo, the country's former military leader, was widely welcomed.

But Gen Abacha's announcement of a three-year transition to civilian rule, culminating in presidential elections in September 1998 and inauguration of the president on October 1, received a cool response from western governments.

Gen Abacha's broadcast, which marked 35 years of Nigeria's independence, of which all but 10 years have been under army rule, was the first time he has set a handover date for his regime.

However, the speech left some crucial issues unresolved. The three-year handover to civilian rule is regarded by opponents as unacceptably long and there was no detail on the prison terms to be served by the 40 alleged coup plotters. Mr Moshood Abiola, the unofficial winner of the presidential poll which was annulled in June 1993, remains in detention facing charges of treason.

World leaders had pleaded for clemency for the 40 alleged plotters, convicted in July in a secret trial that produced widespread outrage. Western nations had warned Nigeria of economic sanctions if anyone was executed.

"In consideration for the earnest pleas of our friends and in the spirit of national reconciliation which has been the centrepiece of this administration's policy, government has decided to commute the sentences on the coup plotters," Gen Abacha said. "This situation will be reviewed at the appropriate time."

In London, the Foreign Office said that it regretted "a lack of commitment to an early handover" to civilian rule in its former colony. "The government welcomes the Nigerian head of state's exercise of clemency and that all death sentences have been commuted, though it remains concerned that long prison sentences should have been imposed after secret trials," the Foreign Office said. "The situation underlines the importance of making political progress and returning to civilian rule," it added.

Gen Abacha's move is designed to achieve two main aims: to buy more time in office and head off tougher international action against the regime. Existing measures by the US and European Union include restrictions on visas for officials, on arms sales and on aid. Bilateral, EU and World Bank aid has almost dried up as government policies have failed to meet donors' conditions and Nigeria's arrears on debt payments reached $10bn.

A Commonwealth human rights group and the US lobby group Transafrica have both demanded sanctions. Oil accounts for more than 90 per cent of Nigeria's exports, of which nearly half goes to the US, but Washington considers a unilateral ban on Nigerian oil is likely to be ineffective.

There has been no move yet to freeze the substantial private assets held by members of the Nigerian regime in the UK and other European countries.

The annulment of the last poll has left deep divisions, especially among Mr Abiola's fellow Yorubas in south-west Nigeria, which was the focus of protests and strikes last year.

Airlines lobby Brussels to reduce high-speed rail funds

By Emma Tucker in Brussels

European airlines, which are increasingly worried by the threat from the expansion of high-speed rail networks, are lobbying the European Commission and national governments to scale back their subsidies.

Concern is growing in the airline industry that subsidies will allow rail companies to offer greatly reduced fares, giving them an unfair advantage over airlines competing on the same routes.

Mr André Clodong, head of the European Aviation Club in Brussels has maintained that EU plans to create a trans-European network of high-speed railways, financed by a combination of national governments, the private sector and the European Commission, could replace air travel on the highest density European routes but still require permanent subsidies.

"The high-speed rail network will create enormous capacity and in order to fill seats the operators will dump prices," said Mr Clodong. "That will affect regional European airlines."

"The development of a European high-speed rail link is significantly biased against air transport," said one regional European carrier. "The European rail projects, if they ever see the light thanks to national and European subsidies, could force air transport to disappear on certain routes, especially at a time when the rail sector remains far from being liberalised."

Examples of competition between high-speed train services and airlines are so far limited, but will increase as rail lines linking Berlin with Verona, Paris with Amsterdam, and Lyons with Turin, are completed in the early part of the next century.

The squeeze on airline traffic is already being felt on cross-Channel routes because of competition from the Eurostar rail service.

Competition is most acute in France, where high-speed rail links are more developed than elsewhere in Europe. Analysts have estimated that Air Inter, the domestic subsidiary of Air France, lost 65 per cent of its traffic on the Paris-Lyons route in 1985, following intensive development of the TGVs in France. Today they estimate that some 3m passengers have been lost to the TGV south-west route.

The complaints from airlines may, however, win little sympathy given the high levels of subsidies airlines have traditionally received from their governments.

"State owned airlines have received large amounts of money in the past, but they are no longer in a position to ask for more. In future they will have to shape up or get out of the business," said a European Commission official.

Hostile $2.1bn bid for Deutsche Postbank

Continued from Page 1

reduce the wealth of the Federal Republic of Germany by DM2bn-DM4bn," said a spokesman for Lehman Brothers, which is advising the Postbank. Deutsche Bank was not available for comment.

The Postbank, which employs 16,500, has 14 retail banks throughout Germany. In addition, it has a contract with Deutsche Post which allows its customers to use its banking services in 17,000 post offices.

The Postbank pays Deutsche Post DM1.4bn a year for the use of these services. The contract is scheduled to expire in 2000 and although the Postbank wants to extend the contract, Deutsche Post is reluctant. "It is not interested in any other rival competitors coming in," a Postbank official said.

Alarm over possible curb on pollution insurance

By Ralph Atkins in London

Plans floated by some of the world's largest insurance companies to exclude pollution claims from many commercial insurance policies have alarmed large UK-based companies.

Risk managers and commercial insurance buyers fear they will have to buy special additional insurance policies to protect against pollution damage – almost certainly at extra cost and with restricted coverage.

The Association of Insurance and Risk Managers (Airmic) is warning that could lead to substantially higher insurance bills and disputes over the definition of pollution.

Ms Liz Taylor, an Airmic spokesman and risk manager at the conglomerate, Harrisons & Crosfield, said: "This is horrific. It would be virtually impossible to create a set of words that don't produce enormous gaps in coverage . . . the only people that would win would be lawyers because we would end up litigating."

The concerns follow a warning by Cologne Re, the German reinsurer controlled by General Re, the US reinsurance group, that insurers "are sitting on a time bomb" by not excluding pollution in general liability policies.

In the past, concerns expressed by reinsurers (which protect conventional insurers against big losses) have resulted in restrictions on policies sold by conventional insurers. So far, however, there is no sign of restrictions being imposed on policies due for renewal at the end of this year.

Fears about pollution coverage have been voiced in other European countries, but London's importance as an insurance market means the introduction of exclusions for UK policy holders could set a wider trend.

At a conference in Monte Carlo, Mr Wilhelm Zeller, a member of Cologne Re's executive board, said some insurers might believe the US experience with pollution claims "could only happen under the 'crazy American legal system' ". But, he went on: "The belief that this cannot happen 'in our market' might turn out to be an expensive error."

Cologne Re said that under its proposals there would be more certainty about what was covered by insurance policies. Typically, a general liability policy, bought by companies to protect against damage to third parties, covers against "sudden and accidental" pollution.

But many insurers and reinsurers fear the risks to which they are exposed might be growing beyond their control.

Mr Roy Elms, of Royal Insurance, the composite insurer, said: "The concern of reinsurers is, despite the restricted wording used by the direct market, that as in the US, courts will bend the language."

THE LEX COLUMN

Lex's 50-year run

Today Lex celebrates its 50th anniversary in the Financial Times. In commemoration, Lex has asked three alumni to write the column.

Folies bancaires

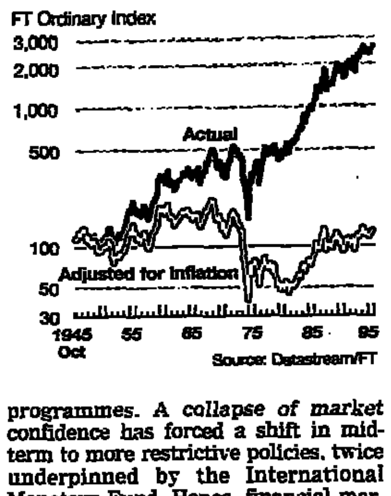
Don't believe it if you don't want to. Banks are actually no more accident-prone than other businesses. It's just that their gearing makes it more likely that mistakes will be fatal; poorly capitalised banks are like haemophiliacs on an assault course. To puncture another myth: banks *are* able to learn from past mistakes. And getting things wrong is not deplorable in itself – to make a lot of money from taking risks, you must expect to lose a fair amount reasonably often. Serious danger seems to arise when two adverse elements coincide. It could be speculative trading and poor controls, or an over-concentrated book (in third world debt, say, or UK property) and a cyclical downturn. The next banking crisis will probably have two sources rather than one, and neither may look particularly sinister until their conjunction becomes apparent.

Problems also become more likely when the risk/reward ratio undergoes structural deterioration. There are some signs this may be happening. Banks are being pushed to assume more legal and regulatory risk, for example, while the higher fixed cost base imposed by investment in technology is pushing up operational gearing. Meanwhile, equity holders are beginning to demand very high real returns at what may be an unsuitable juncture. The strength and discipline of management has to rise to offset these pressures.

The greatest danger to banks still comes from other banks, whether in the urge to copy each other's behaviour or in the spread of trouble through the dry underbrush of the payments system. Perhaps the very low regulatory weightings for inter-bank business encourage indiscriminate exposure (in which case blame the banks, not the regulators). The International Monetary Fund is a haemophiliacs' convention. Think of those sharp elbows at cocktail parties. Sorry, did I knock you?

Martin Taylor, Lex 1978-1982
Chief executive, Barclays Bank

UK equities



Labour party

The three postwar Labour governments have taken office at times of economic trouble with expansionist programmes. A collapse of market confidence has forced a shift in mid-term to more restrictive policies, twice underpinned by the International Monetary Fund. Hence, financial markets have performed more strongly in the second half of parliaments than the first. This time, we are promised, it will all be different. There will be no uncosted pledges, no favours for the unions and a new partnership with business. In far more specific language than the Tories used before 1979, Mr Tony Blair's Mais lecture in May and Mr Gordon Brown's economic policy statements have made low inflation and fiscal probity top priorities.

Judged by its intentions, a Brown chancellorship might not be that different from the Clarke regime. Delivery will depend on Mr Brown's ability to be tough with his colleagues' ambitions on spending and public sector unions' demands on pay. On both counts, do not underrate Mr Brown's single-mindedness. He is not afraid to make enemies. Public spending and borrowing might rise under Labour, but not nearly as much as under the Tories after 1991. Labour would sound more positive about a single currency than most Tories, apart from Mr Clarke, but would be wary in practice.

The real difference would be elsewhere. For all Mr Blair's current overtures to business, a Labour regime would reduce the tax loopholes and perks of executives and be less congenial to utilities, while shifting the onus of proof in takeovers. Business costs might be raised by the introduction of a minimum wage and by acceptance of the European social chapter, though the new burdens will be much less than currently claimed.

The election of Labour would be less a revolution than a change of management, not least because no government of whatever party any longer has much room for manoeuvre over economic and industrial policy. Mr Blair has no choice but to be friendly to the City and business.

Peter Riddell, Lex 1974-1976
Political columnist, The Times

Annual meetings

The annual general meeting is not what it used to be. British Gas's recent marathon had nothing on Camp Bird's in 1963 when Dr Kurt Wallersteiner resigned as a director and called for a Board of Trade investigation which obligingly then castigated him for "large-scale deception". The ousting of Mr John Stanley from Pye in 1966 by his fellow directors for mismanagement, amid a laceration of lawyers, was equally dramatic. The year before we were robbed of the meeting to remove Mr Wilfred Harvey from the chairmanship of British Printing after his colleagues discovered he was pocketing £270,000 a year, but only because he agreed to quit. That is equivalent to £2.8m, making today's corporate fat cats look positively anorexic.

Then annual meetings called directors to account. Now they are occasions of a different stripe. The board is there, but what of the audience? There are the company's advisers, a few employees, a sprinkling of sell-side analysts and a selection of shareholders – individual shareholders that is. But the institutions, which own some 70 per cent of the equity of UK plc, are conspicuous by their absence. It is Hamlet without the prince.

The more important institutions have a series of virtual general meetings of their own in the shape of customised presentations from senior management in the days that follow. So what? There are two big objections. The lesser is that this is an inefficient use of management resources for shareholders who want to cover much the same topics. The greater is that it is divisive for two categories of shareholders to be treated differently – even if no significant, let alone price-sensitive, information is provided.

What matters to everybody is making the equity work harder. Turning the annual meeting into a forum for constructive dialogue with all shareholders, as the Myners committee suggested, will not of itself do the trick. But it should bring important issues into the open earlier and might make sense of what is often a farce.

James Joll, Lex 1963-1968
Finance director, Pearson

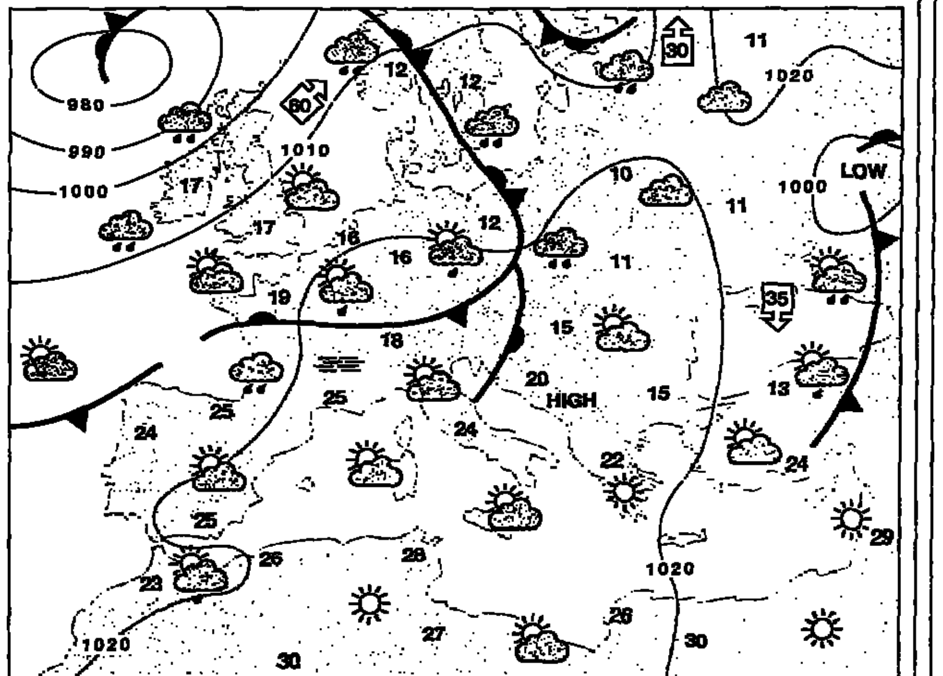
FT WEATHER GUIDE

Europe today

An active low pressure system near Ireland will produce showers and blustery winds across the British Isles. France and the Netherlands will be warmer than the last few days with a mixture of sunshine, cloud, fog patches and isolated showers. Spain will be mainly dry and sunny, except for showers in the north and the far south. Italy and the Balkan states will be calm due to high pressure. They will be sunny but a little cooler. Turkey will have several showers. North-eastern Europe will be very unsettled apart from the Ukraine which will be mainly dry and sunny. Southern Scandinavia will have an increasing risk of rain as south-westerly winds develop. Poland, the Czech Republic and Austria will have cloud and isolated showers.

Five-day forecast

High pressure will dominate across the continent, while low pressure will be almost stationary near Iceland. The resulting south-westerly winds will cause mild and slightly unsettled conditions across western Europe. The British Isles will remain windy and quite humid. Central Europe will be mainly dry and sunny with a risk of patchy but persistent fog. Eastern Europe will be dry but rather cool.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

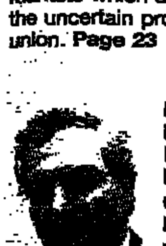
	Maximum		Beijing	fair	21	Caracas	thund	32	Faro	cloudy	24	Madrid	fair	26	Rangoon	thund	32
	Celsius		Belfast	shower	17	Cardiff	cloudy	16	Frankfurt	cloudy	18	Majorca	sun	26	Reykjavik	windy	9
Abu Dhabi	sun	35	Belgrade	fair	17	Casablanca	shower	23	Geneva	cloudy	21	Malta	fair	26	Rio	fair	29
Accra	shower	29	Berlin	cloudy	15	Chicago	sun	18	Gibraltar	shower	23	Manchester	cloudy	17	Rome	fair	24
Algiers	sun	29	Bermuda	thund	29	Cologne	cloudy	16	Glasgow	shower	16	Manila	fair	30	S. Frsco	sun	26
Amsterdam	cloudy	16	Bogota	cloudy	18	Dakar	fair	31	Hamburg	cloudy	15	Melbourne	cloudy	16	Seoul	fair	25
Athens	fair	23	Bombay	shower	32	Dallas	cloudy	28	Helsinki	cloudy	10	Mexico City	fair	23	Singapore	fair	33
Atlanta	fair	26	Brussels	cloudy	17	Delhi	sun	36	Hong Kong	shower	30	Miami	thund	32	Stockholm	fair	11
B. Aires	fair	18	Budapest	cloudy	16	Dubai	sun	36	Honolulu	cloudy	31	Milan	cloudy	19	Strasbourg	cloudy	20
B.ham	cloudy	17	C.hagen	fair	14	Dublin	cloudy	17	Istanbul	shower	17	Montreal	fair	21	Sydney	shower	21
Bangkok	thund	32	Cairo	sun	33	Dubrovnik	fair	21	Jakarta	thund	32	Moscow	shower	11	Tangier	shower	25
Barcelona	cloudy	24	Cape Town	shower	16	Edinburgh	shower	16	Jersey	fair	14	Munich	shower	19	Tel Aviv	sun	30
									Karachi	sun	35	Nairobi	fair	27	Tokyo	rain	24
									Kuwait	sun	37	Naples	fair	24	Toronto	fair	20
									L. Angeles	sun	30	Nassau	thund	32	Vancouver	fair	16
									Las Palmas	sun	26	New York	fair	25	Venice	fair	18
									Lima	cloudy	20	Nice	fair	22	Vienna	cloudy	18
									Lisbon	fair	25	Nicosia	fair	27	Warsaw	cloudy	11
									London	cloudy	18	Oslo	cloudy	12	Washington	sun	26
									Lux.bourg	cloudy	16	Paris	fair	20	Wellington	shower	13
									Lyon	cloudy	22	Perth	sun	24	Winnipeg	fair	14
									Madeira	fair	24	Prague	shower	16	Zurich	cloudy	18

FINANCIAL TIMES
COMPANIES & MARKETS

Monday October 2 1995

MARKETS THIS WEEK

MARTIN DICKSON:
GLOBAL INVESTOR
Is there really any substance to warnings that the US government might default on its debts? Or is this an empty threat, part of an elaborate game of budget bluff being played out in Washington? The question could weigh increasingly over the next few weeks on financial markets which are currently much more focused on the uncertain prospects for European monetary union. **Page 23**



MARTIN WOLF:
ECONOMIC EYE
Powerful Germans demand that the Maastricht treaty convergence criteria be strictly applied both *before* and after the move to monetary union. Since an Emu that displeases Germany could destroy the EU, no country should consider participating unless sure it can tolerate Germanic monetary policy, tight limits on its fiscal discretion and a fixed exchange rate against Germany, *forever*. **Page 23**

BONDS:
Infrastructure projects are generating increasing amounts of business for bankers in the syndicated loan market. **Page 26**

EQUITIES:
The peculiar German attitude towards shares was highlighted recently in a survey about the quality of advise given by banks to their customers. **Page 25**

EMERGING MARKETS:
Swings in the Mexican bolsa's leading index this year have shown plenty of the downside in a fragile market at a time when Mexico is still waiting for relief from devaluation-inspired recession. But there is also evidence of the upside. **Page 24**

CURRENCIES:
A combination of US economic data and the approaching G7 gathering in Washington should be sufficient to provide currency markets with the fresh trading direction they are searching for. **Page 24**

COMMODITIES:
The aluminium market will become increasingly nervous this week because strike action might affect smelters who are responsible for nearly 4 per cent of western world primary output. **Page 23**

INTERNATIONAL COMPANIES:
Gemina, the Italian investment company which plans a merger to form Italy's second largest private industrial group, lost L341bn ($212m) before tax in the first half of 1995. **Page 22**

UK COMPANIES:
Lucas Industries, the aerospace and automotive company, will this week announce the end of a long-running wrangle with the Pentagon and a settlement of about $100m. **Page 20**

STATISTICS

Aetna considers sale of operations

By Maggie Urry in New York

Aetna, the largest quoted insurance company in the US, is considering selling its property-casualty business and reviewing options for its other businesses to improve shareholder values.

The group issued a statement after stock trading closed on Friday, following speculation in the market which drove the shares up towards the end of last week. The share price closed at $73¾ on Friday, capitalising the company at $8.3bn.

The statement said: "In order to further strengthen our competitive position and financial performance, Aetna is continuing to review strategic options for all its businesses, which may result in acquisitions, sales or spin-offs. The company is presently exploring all of these options, including the possible sale of its property-casualty business. No assurance can be made that there will be any transaction."

Aetna stressed nothing had been ruled out or in. One suggestion is that if it sold the property-casualty side it could reinvest the proceeds in its more profitable areas. The group said it would not comment on whether it had appointed outside advisers to help it with the sale, or on the likely timescale of the review. However, it said since the speculation over the possible sale of the property-casualty side, the group had received a number of interested phone calls.

The property-casualty division is the least profitable of Aetna's businesses, which include life and health insurance, reinsurance and mutual funds. The property-casualty division's operating profits fell from $241m in 1993, to $60m in 1994, after a reversal from a capital gain of $101m, to a loss of $1m. Even so, as one of the largest property-casualty insurers in the US the business could generate substantial funds for Aetna.

In July, Aetna added $750m to its reserves for environmental and asbestos liabilities, bringing the total of these reserves to $1.2bn. It said this was a conservative level which "puts a fence round the environmental exposure issue".

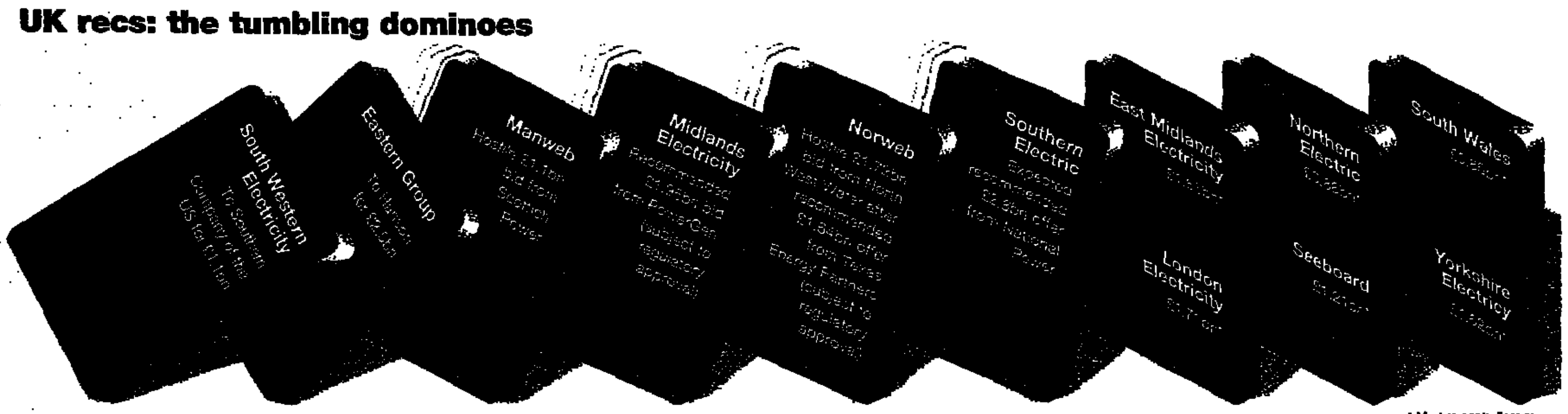
The environmental issue has caused concern among investors which has prompted several large insurers to increase reserves. In July, Aetna's credit rating was cut by Duff & Phelps from single-A plus to single-A because of the potential liabilities.

By increasing the reserves, Aetna made the property-casualty business more attractive to buyers. Aetna said yesterday the increase had to be done regardless of whether the business was put up for sale.

Government decision to permit vertical integration has sparked fresh wave of electricity bids

Escaping the power sector's generation gap

UK recs: the tumbling dominoes



* Market capitalisation

National Power's bid for Southern Electric represents a U-turn for the UK's largest power generation company. Only two months ago, Mr John Baker, chairman of National Power, dismissed the idea of acquiring a regional electricity company (rec), saying: "In principle, we are not interested in expanding our exposure to the UK regulatory system."

He also called for Scottish Power's £1bn ($1.58bn) bid for Manweb, the Chester-based rec, to be referred to the Monopolies and Mergers Commission because it would create a vertically integrated power group.

Yet today, Mr Baker will announce plans to create the biggest vertically integrated company in the UK.

It was the government's decision to ignore the call for Scottish Power's bid to be referred to the MMC which ultimately led to Mr Baker's change of heart. The decision was taken as a signal that the government had no objection in principle to the combination of generation and distribution, although this would overturn the separation set up ahead of privatisation. Suddenly the assumption that National Power and PowerGen would be blocked from buying a rec was put in question.

Two weeks later, PowerGen took the plunge with a £1.9bn agreed bid for Midlands Electricity, the fifth largest rec. Once PowerGen had made its move there was little doubt that National Power would feel compelled to follow suit, with Southern Electric the most likely target.

The largest rec still available, Southern serves 2.6m customers in an area stretching from west London to Dorset. With a well regarded management, headed by Mr Henry Casley, chief executive, it was known to be open to some sort of deal.

The rationale behind National Power's move is the same as for PowerGen. Both are getting into position for 1998, when all 23m UK domestic electricity consumers will be given the choice of which company they buy their power from (although the power will still come through the local monopoly distributor's wires).

Neither of the generators has the expertise in billing, marketing and customer service to attack the domestic supply market. Rather than build such operations themselves, they have opted to buy them.

There is still a chance that the bids will be referred to the MMC. Professor Stephen Littlechild, the power industry regulator, has expressed concern about the effect on competition of vertically integrated groups.

He also said that if PowerGen/Midlands was followed by similar deals it would have "wide implications for competition".

Ministers are thought not to see vertical integration in itself as a reason for a referral. But Mr Ian Lang, the trade and industry secretary, has warned that at some stage an "accumulation of mergers may impede the electricity regulator's ability to carry out his duties".

In an effort to calm regulatory worries, PowerGen and National Power have combined their bids with moves to reduce their shares of the generation market.

PowerGen announced plans to lease two power stations to Eastern Group, now owned by Hanson, for a total of £400m. This follows a commitment made to the regulator that it would sell off 2,000MW of capacity by the end of this year.

National Power, which made a similar commitment to sell 4,000MW of capacity, will today announce that it has received bids worth more than £1bn for three modern stations which account for over a quarter of its output. These moves will reduce PowerGen's market share from 23 per cent to 19 per cent and National Power's from 34 per cent to 25 per cent.

These disposals, as much of the wave of bids, will transform the shape of the UK electricity industry.

David Wighton

The wave of bids in the electricity sector is set to continue this week with National Power announcing a £2.8bn ($4.34bn) agreed offer for Southern Electric today and a new £1.7bn bid for Norweb from Texas Energy Partners of the US expected to follow within days, writes David Wighton.

Along with the bid for Southern, priced at just over £10 a share, National Power will also reveal it is close to selling three power stations for more than £1bn. National Power's approach mirrors that of PowerGen, which last month agreed a £2bn offer for Midlands Electricity and announced the sale of two power stations for £400m to Eastern Group.

Now owned by Hanson, Eastern is thought to be also among leading bidders for National Power's stations, along with AES and Enron of the US.

Meanwhile, Texas Energy Partners, whose agreed £10.50 bid for Norweb on Thursday was immediately topped by North West Water, is expected to return with another offer. Analysts believe it may be above North West's £10.75 cash bid but below its cash and paper offer, worth £11.05 on Friday. Texas Energy would then question the value of North West's shares and the scale of savings it could generate from a merger with Norweb.

KPMG audit arm plan likely tomorrow

By Richard Wolffe in London

KPMG, the global accountancy firm, will put an end to 15 months of debate and speculation tomorrow over plans to convert its audit practice into a separate company with limited liability.

The firm is expected to announce it will turn its audit business from a partnership into a corporate body, in response to the mounting cost of litigation.

Britain's other big six accountancy firms are known to be watching the developments at KPMG with close interest. The cost of fighting and settling claims, as well as insurance, is estimated to amount to 8 per cent of their turnover.

KPMG said tomorrow's announcement would deal with the results of last month's poll among its 570 partners on incorporation. The vote had been delayed because of the tax complications surrounding the move.

KPMG said yesterday: "It is possible we will not be going ahead with incorporation. Our name has been associated with the dialogue on the issue quite prominently, and if the answer is no, we would probably have to say why."

Incorporation would ring-fence the personal assets of partners from any successful claim of negligence against their fellow partners. It would replace the legal principle of joint and several liability, which underpins partnerships, with corporate and individual liability. But the move would not prevent litigation. Individuals, as well as the company, could still be forced to defend claims for negligent work. Partners on the audit side would have corporate liability as directors of an audit company.

Incorporation would usher in a new management approach, allowing tighter corporate control over what has traditionally been the decentralised nature of partnerships. KPMG has pledged to publish full "plc-style" accounts for the new company and the firm as a whole.

The government is considering legal reforms of the principle of joint and several liability. The department of trade and industry last month asked the Law Commission to investigate the feasibility of reforming the legal principle, under which accountants can be ordered to pay all the damages of an action, regardless of the degree of negligence.

This week: Company news

EUROTUNNEL

Casting light on restructuring and cash flows

Eurotunnel's interim results on Friday will cast more light on how the troubled operator of the Channel tunnel has fared in its first year of operation.

The occasion will also provide an opportunity for the company, which in September suspended interest payments on £8bn ($12.4bn) of debt, to comment on the progress of restructuring talks with its banks.

The company has disclosed first-half revenues of £104.5m, against the full-year forecast in its 1994 rights issue prospectus of £525m.

It is expected to disclose a loss for the period of £300m-£350m, although analysts are unsure about the size of the company's operating costs.

The results will help build a picture of what cash flows the company can expect to achieve when it is operating at full capacity and therefore give a clearer idea of what level of debt the company can realistically service.

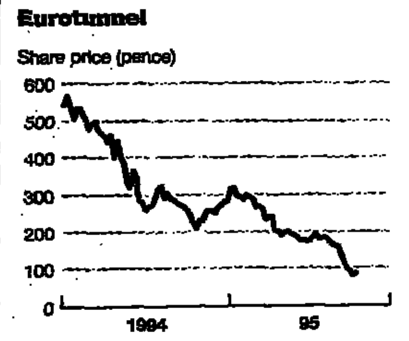
Sir Alastair Morton, co-chairman, has admitted that this year's and next year's revenues will be below forecasts, but shareholders and analysts will be anxious to get more specific details.

In particular, they will be looking for concrete information on the yields on the company's services. Le Shuttle has taken a large part of the ferries' business, but has been affected by severe price-cutting. The Eurostar service has been even more disappointing, as it has failed to attract a large section of the tourist market.

However, the shortfall in revenues has also been the result of the late start-up of some services and a number of high-profile delays so the company has been operating below capacity over the summer.

Eurotunnel claims to have had reliability problems, especially with the rolling stock, over which it is suing TML, the contractor, for £1bn. This has led analysts to forecast that operating costs will be above expectations.

Eurotunnel



Source: FT Extel

AXA

Steady growth as expansion continues

The French insurer reports first-half results on Thursday amid a busy phase of expansion. Few insurance analysts expect a large change from the group net profits of FFr1.5bn ($306m) recorded in the comparable period of 1994. Forecasts are complicated by questions over the level of capital gains during the period and whether the insurer decides to further write down real estate assets. Most analysts expect continued improvement in core underwriting results.

Recent acquisitions, such as National Mutual of Australia and Abeille Reassurances, came after the close of the first-half accounts.

■ **Winterthur Insurance:** Switzerland's second largest insurance group, will publish first-half figures today and they are expected to reflect a healthy improvement in both the underwriting result and the investment activity. It will not be a full profit and loss account, but will be more detailed than the interim statement from rival Zurich Insurance, Winterthur promises. The group may provide further information on a new Bermuda reinsurance venture with Swiss Reinsurance announced last week.

■ ***Société Générale de Belgique:*** Belgium's biggest holding company, is expected to report encouraging first-half results today. Four of the five Belgian companies in which SGB operates as a leading shareholder have already reported buoyant figures for the first six months of the year, and analysts are expecting SGB profits after extraordinary items to be up 13 per cent in the first half, compared with the same period in 1994.

■ **Saga Petroleum:** Norway's largest independent oil company, is expected to unveil operating profits of about NKr1.3bn ($206m) when it announces its eight-month figures on Wednesday. The NKr300m improvement on the same 1994 period will reflect increased oil production and a slightly higher average oil price, offsetting the impact of the weaker dollar.

■ **Manchester United:** Gains on the sale of players are this week expected to fuel a sharp increase in first-half profits at the UK's most profitable football club. Manchester United is likely to unveil pre-tax profits of £18.8m ($29m) on Tuesday, up from £10.8m, of which about £3.5m will be derived from player receipts. Even after stripping out such receipts, underlying profits should increase by more than 10 per cent following further improvements in merchandising and television revenues.

■ **Bank of Scotland:** *Half-year results* on Wednesday have been overshadowed by the UK bank's decision to acquire a 51 per cent stake in Bank of Western Australia for £235m ($364m), a strategic move that has caused some puzzlement.

The bank, regarded as one of the safest investments in the sector, is expected to raise pre-tax profits, for the six months to August 31, to £270m, from £236.5m, but there will be questions about its future capital strength.

■ **Hewden Stuart:** The UK's largest plant hire company, is expected to show that it is prospering, in spite of the problems in the construction industry, when it reports interim results on Wednesday. The group, which is involved in sectors such as housebuilding, roads and industrial projects, is forecast to improve pre-tax profits to £20m ($31m), from £16.2m, an increase of more than 20 per cent.

Hewden has benefited from the difficulties experienced by UK construction companies, because they have not had the resources to buy their own plant. However, analysts expect the downturn in the construction sector to slow Hewden's rate of profits growth in the second half.

■ **McBride:** Europe's largest manufacturer of own-label household products and toiletries, is expected to announce on Thursday annual operating profits of £38.5m ($60m) and earnings per share of 14.7p. This would be in line with the forecast made in its June prospectus, and would represent a 10 per cent increase over the operating profits for the year to end-June 1994.

■ ***UK retailers:*** *Analysts are today* expecting pre-tax profits of about £2.7m ($4.2m) from **Moss Bros**, the specialist men's wear retailer, up about 40 per cent on last time's £1.92m. On Wednesday, **Austin Reed**, the clothing group which issued a profits warning in June, is expected to announce pre-tax profits of £1.4m, against last time's £1.84m.

Companies in this issue

Lucas to settle contract dispute with Pentagon

By Peter John

Lucas Industries, the aerospace and automotive company, will this week announce settlement of a long wrangle with the Pentagon.

The settlement relates to problems with a defence contract and will be in the region of $100m (£64.5m). It could hit full-year figures, expected on October 9.

But it will also end a problem that has been hanging over the company for two years and pave the way for possible disposal of a thorny US subsidiary.

On whether an announcement would be made today or tomorrow, the company said that it could not confirm or deny it but "this is the last historic problem and it would be very much in the interest of the company to have this resolved as soon as we can."

The Pentagon row stems from sales of gearboxes used by the US Navy's F/A-18 fighter aircraft and Azimuth Drive Units used by the US Army's Multiple Launch Rocket System.

Both were built at plants in California and Utah, acquired through Lucas' 1987 purchase of Western Gear. Renamed Lucas Western, the subsidiary admitted in January that it falsified inspection records and has already paid fines and costs totalling $18.5m (£11.9m).

However, the company has also been fighting a civil claim that the gearboxes were substandard. Faced with a long legal case in the US, it said it would settle out of court but not admit liability.

Cash was set aside for the settlement last October as part of a £213.9m package of provisions. But, a $100m deal is believed to be larger than anticipated and could hit Lucas' pre-tax profits which city analysts currently forecast at between £130m and £140m. This compares with a loss after exceptionals of £129.7m last year.

Wiseman production ahead of schedule

By David Blackwell

Robert Wiseman Dairies, the Scottish liquid milk processor and distributor, expects its new Manchester dairy to hit break-even levels of production this week – about six months earlier than expected.

The group is planning to build the £10m dairy up to annual output of 300m litres in the next three years, which would put it among the biggest in the UK.

Over the weekend the dairy, which has been in production for only a few weeks and still resembles a building site, boosted output to about 55m litres a year. The increase follows an additional order from Wm Morrison Supermarkets, which will take the number of Morrison outlets supplied from eight to 24. The dairy already supplies 26 Tesco stores around Manchester.

The group, which was floated in March last year, is concentrating on supplying liquid milk in cartons and plastic bottles to supermarkets and shops. It has made three acquisitions since flotation, funding the last in June with a £14m placing. Another acquisition is expected to be announced this week.

It believes that England's declining doorstep deliveries will rapidly fall from about 50 per cent to near Scotland's 16 per cent.

Mr Alan Wiseman, chairman, said last week that the dairy, which would build up to 100m litres a year over the next 12 months, was seeking custom from other supermarket groups. "The capacity is here – all we need is the store allocation."

The group already supplies Safeway, Sainsbury and Asda in Scotland, where it has 37 per cent of the market.

In June Wiseman reported pre-tax profits up from £5.13m to £7.02m in the year to April 1, with sales leaping from £59.7m to £107.9m.

Whitbread sells 137 pubs for £12.3m

In a move which further removes Whitbread from its brewing origins, the group has sold 137 pubs to Pubmaster, the independent public house operator, for £12.3m, writes Peter Pearse.

The consideration will be paid in two equal tranches, in March 1996 and March 1997. The pubs are in the north-west, the West Country and Kent. Pubmaster is currently embarked on a £19m four-year investment programme, focused on refurbishing the tenanted estate and the expansion of its retail brands.

The sale hastens the day when Whitbread, which became the UK's third largest hotel operator with the acquisition in August of 16 Marriott hotels for £180m, will be reclassified as a leisure rather than a brewing stock.

In the same week as the hotels buy – when it also took over operation of the Marriott name in the UK – Whitbread bought David Lloyd Leisure, the tennis and health club business founded by the former tennis star, for £200m.

Harnischfeger fires further salvo at Dobson

Another salvo was fired yesterday in the £172m hostile bid by Harnischfeger Industries, the US mining equipment manufacturer, for its UK rival Dobson Park, when the US company questioned whether its target could maintain its independence, writes Peter Pearse.

In a statement further countering Dobson Park's defence document, Harnischfeger attacked in particular the UK company's strategy.

Speaking from the US, Mr John Hanson, chief operating officer, derided the defence as "fluff, obfuscation and full of unsubstantiated promises".

Without promising any increase in Harnischfeger's 110p offer, he maintained that there was "not a lot they can do independently".

He said that the combined sales of Dobson Park's Longwall International mining equipment business and Harnischfeger's Joy Mining Machinery subsidiary would approach $1bn a year. This size, he added, would help transform Dobson Park, which he described as a "reactive" business, where sales were not driven by new products.

In response, Dobson Park said: "The board considers that Harnischfeger's latest letter contains nothing new of relevance and indeed is inconsistent with its original offer document. Further, the letter demonstrates a lack of understanding of certain aspects of the international market for longwall mining equipment."

Dobson Park has until October 20 to release any new material information. Its year-end fell last week and it is expected to reveal that Longwall's contribution was greater than expected.

British Steel

British Steel has paid SKr132m (£12m) for a further 1.74m shares in Avesta Sheffield, the Anglo-Swedish stainless steel producer, after clearance was granted by US anti-trust authorities. The acquisition gives it a 51 per cent stake.

British Steel said it had no plans to acquire further shares in Avesta.

End of an independent lifestyle?

Indosuez is to sell its 75% Gartmore stake. Norma Cohen on the fund manager's form and future

Mr Paul Myners, executive chairman of Gartmore, the UK fund manager, wore an Hermès tie with frogs on it the day Banque Indosuez sold a quarter of its 100 per cent holding to the public nearly two years ago.

A friend inquired whether there was any symbolism to the choice of neckwear. "Yeah, I'm going to cut off the bottom 25 per cent," Mr Myners is said to have replied.

Relations between Gartmore, the fastest-growing UK fund management company in recent years, and its majority stakeholder have never been close. Neither, however, have they been strained, largely because the French bank has allowed Gartmore to act as a more or less completely independent company.

Indeed, explaining why, to raise cash, it had chosen to sell Gartmore from all of its assets, the bank said: "We have never succeeded in creating much synergy with Gartmore which pretty much lived on its own. Perhaps we made a mistake to think we could integrate it into our own operations."

Gartmore officials, too, say privately that they have seen no real benefits from the relationship other than independence. "In five years, they have helped our assets under management grow by £100m. That's it," said one executive. In that time, Gartmore's total assets under management have roughly quadrupled to about £24bn, more than three quarters of that from UK pension fund clients.

Gartmore's unit and investment trusts remain a relatively small part of its total assets.

Last year, Gartmore joined North Carolina-based NationsBank, the fourth largest US bank, in a joint venture to sell international equity investment products to US retail clients. NationsBank selected Gartmore after a "beauty parade" including some of the largest UK fund managers.

The secret of Gartmore's success is that it has consistently outperformed the median of its counterparts for most of the past 10 years. One notable exception was 1994. But even then, data from Combined Actuarial Performance Services (Caps), a performance measurement service, shows that in the five years to December 1994, Gartmore had – with 10.6 per cent – the fourth highest average annualised return of any leading UK fund manager. The Caps median was 9.5 per cent.

Gartmore's spectacular growth rate has been of some concern to investment consultants who assist pension trustees select fund managers. Over the past year, Gartmore has dispensed with two marketing directors, while two senior officials have left to join other firms. Both were members of its key asset allocation committee.

Gartmore has been noted for its ability to judge which asset classes are likely to outperform and is one of the few firms which has assignments to do no more than asset allocation.

However, its 1995 investment returns show signs of returning to the outperformance in recent years, consultants say.

In announcing that Gartmore is up for sale, Banque Indosuez has caused palpitations at several large US and European banks who are anxious to buy a well-known fund management company. When Barings collapsed earlier this year, it received 27 separate offers to buy its fund management arm, of which 16 were taken seriously.

Mr John Casey, partner at US-based investment consultants Rogers Casey, says that in recent years, banks have woken up to the fact that fund management is an industry, not just a service and that large managers can produce profit margins of 30-40 per cent of revenues.

Moreover, revenues earned are a percentage of assets under management, a fee structure which promises stable earnings year after year. These can cushion banks against volatile earnings from securities activities and lending.

Also, the growing trend among fund managers – particularly in the US – to diversify their investments outside their own borders has created demand for expertise in international equity investment, something banks would as soon buy as grow themselves.

However, officials familiar with Gartmore say it is unlikely that Banque Indosuez will be able to sell the company to the sort of US bank prepared to pay a fancy price. NationsBank, which as a result of its joint venture has options on up to 25 per cent of Gartmore's total share capital, is unlikely ever to agree.

"Basically, anyone who even touches a dollar bill will be regarded as a competitor by NationsBank," said one Gartmore official. Privately, NationsBank officials concede that is indeed their view and the bank is said to be examining whether it could make a bid for Gartmore itself.

Gartmore officials are said privately to favour a buyer which could add distribution in some market, such as continental Europe or Asia where the firm has no distribution. Or, its management would like to arrange a buy-out, provided financing were available.

"We would have bought it ourselves [in 1990] instead of selling it to Indosuez, if we had only had the courage," one executive said wistfully.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Houston Industries (US)/ Central & South West (US)	Norweb (UK)	Power	£1.7bn	White knights quickly trumped
Harnischfeger Industries (US)	Dobson Park Industries (UK)	Mining equipment	£172m	War of words intensifies
Schering (Germany)	Medrad (US)	Medical equipment	£113m	Adding diagnostics value
Norsk Hydro (Norway)	Units of Caradon (UK)	Building materials	£25m	Caradon tidies portfolio
Bayer (Germany)	Myriad Genetics (US)	Biotechnology	£6.3m	Stake part of co-op plans
ABN Amro (Netherlands)	Chicago Corp (US)	Financial services	n/a	Nearing universal status
Temic (Germany)	Unit of ITT (US)	Semiconductors	n/a	ITT non-core disposal
Miller Brewing (US)/ Brahma (Brazil)	JV	Brewing	n/a	Brazilian import venture
Aran Energy (Ireland)/ Statoil (Norway)	JV	Oil & gas	n/a	JV upsets bidder Arco
VCI (UK)/Columbia Tristar (US)	JV	Film distribution	n/a	Budget video venture

Cortworth plans float with £60m price tag

Cortworth, a buy-out of most of the specialist engineering division of the industrial conglomerate Williams Holdings, is planning an autumn flotation which will value the group at about £60m.

Formed in 1993 for the purposes of the buy-out, which was in the region of £40m, Cortworth has three divisions: specialist engineering, making automotive and aerospace components; plastics, making automotive components and mouldings for office furniture and shop fittings; and controls, assembling industrial gas meters and making control products for cookers.

In 1994, profits before interest and tax were £6.4m, struck on sales of £58.8m. Operating cashflow in the year was £12.5m.

The float will be via a placing and intermediaries offer, with Samuel Montagu as sponsor and James Capel as stockbroker.

CLS placing raises £5m

CLS Holdings, the commercial property group which floated in May last year, has announced the placing of 4.99m new ordinary shares at 100p each. The cash raised will be used to fund its ongoing investment programme.

CLS also reported a 52 per cent pre-tax profits fall for the six months to June 30, from £8.37m to £4m. However, last time's result was after exceptional gains of £6.43m.

Turnover this time was 23 per cent ahead at £12.9m (£10.4m), of which acquisitions accounted for £393,000 (£854,000). At the operating level profits rose from £7.77m to £11.2m.

Net rental income increased 19 per cent to £12.3m.

The interim dividend of 2.1p is payable from earnings per share of 4p, compared with 14.8p before and 3.3p excluding the exceptional credit.

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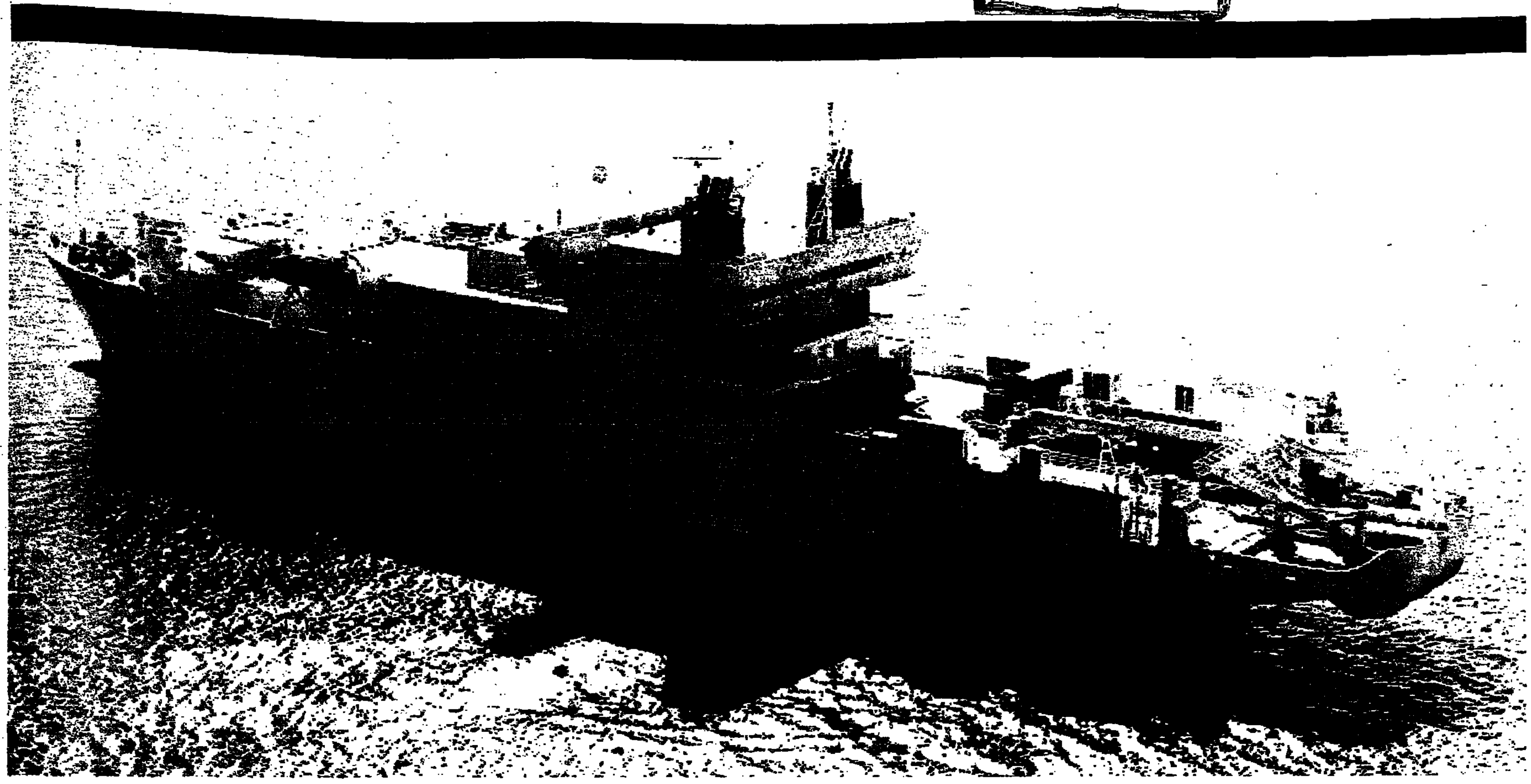

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Loss dents Gemina credibility

By Andrew Hill in Milan

Gemina, the Italian investment company which plans a merger to form Italy's second largest private industrial group, lost L341bn ($211.7m) before tax in the first half of 1995 following further heavy losses at its RCS publishing and media company, and write-offs by an investment subsidiary.

Gemina's shareholders include some of the most powerful names in Italy's industrial and financial hierarchy, headed by Fiat, the motor vehicle manufacturer, and Mediobanca, the Milan merchant bank.

But the group's credibility as a vehicle for the takeover of Ferruzzi Finanziaria (Ferfin), the holding company which controls the Montedison industrial company, has been severely dented by the continuing losses at RCS, which groups together the Rizzoli publishing and media empire and the Corriere della Sera newspaper business.

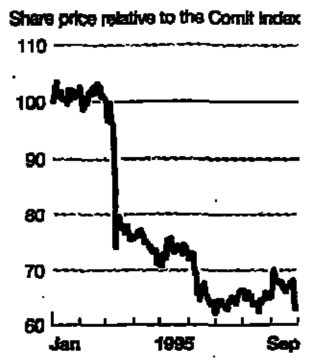
The investment company's shares fell more than 8.5 per cent last week after RCS, 93 per cent owned by Gemina, reported losses of L276bn in the first half, on top of heavy losses in 1994. Gemina said at the weekend that it would provide L100bn for a capital increase at RCS.

Gemina has a healthy cash balance, following a L1,500bn capital increase earlier this year, but analysts pointed out yesterday that recent events could undermine the industrial rationale of the Gemina-Ferfin merger plan.

The deal is supposed to help former creditor banks of Ferfin reduce their stake in the company, but the more Gemina's share price falls, the more shares Ferfin's shareholders will hold in the new company.

Gemina

Share price relative to the Comit index



Source: FT Extel

Gemina was forced to postpone publication of its own half-year results until Saturday. Apart from the RCS losses, Gemina confirmed that Gemina Capital Markets, an investment subsidiary, had recorded L240bn of pre-tax losses in the first half having written off loans to Fochi, the troubled Italian engineering group which was put into special administration in June.

Gemina, which had 1994 pre-tax profits of L67.4bn, had already warned shareholders of its exposure to Fochi.

Separately, Italian newspapers reported that the Milan prosecutor's office had opened an inquiry into Gemina and RCS, although it was not clear whether the investigation related to recent developments.

Gemina's first-half performance would have been worse except that other assets – including stakes in Fila, the US-quoted sportswear group, GFT, an Italian textiles company, and Burgo, the Italian paper-maker – performed well.

Gemina said its result before tax for the full year would be "a definite improvement" on the first half.

Product withdrawal may hit Schering

By Judy Dempsey in Berlin

Schering, the German pharmaceuticals company, may have to reduce its turnover and profits forecasts for this year following its decision at the weekend to suspend sales of Isovist 280, one of its most important new contrast media products.

The drug, which will not be sold for at least two years as Schering carries out further clinical tests, was withdrawn after reports of adverse side-effects, mostly skin allergies. The product was launched in Japan last December and in Germany last January.

"This is a setback, particularly since we were expecting a sharp rise in sales for this drug," said Mr Ralf Harenburg, head of investment relations at Schering.

Isovist 280, used when taking x-rays, had sales of DM35m last year. But sales were expected to more than double this year after its launch in Japan and Germany and reach DM200m ($140.5m) next year.

"The loss of DM200m is not a huge amount as such," said Mr Stewart Adkins, analyst at Lehman Brothers. "However, it is a question of perception [by the shareholders]. It is a blow at a time when Schering is proving exceptionally accident-prone," he added.

Last year, Schering was at the centre of a controversy surrounding possible side-effects caused by its Diane contraception drug – which have since been disproved. Schering's sales last year were DM4.8bn.

Isovist 280 is one of the drugs grouped under Schering's contrast media, or diagnostics division. The Berlin-based company is the leader in contrast media, with 32 per cent of a market worth DM5bn worldwide. Diagnostics accounted for DM807m, or 35 per cent of its sales for the first six months this year.

"The issue which we have to tackle now is to see how we can compensate for the suspension of Isovist 280 sales," said Mr Harenburg.

NEWS DIGEST

UBS more upbeat on profits outlook

Union Bank of Switzerland, the country's largest bank, has made a more upbeat profit forecast for the current year than that made two months ago in its interim report. "If nothing special happens, we will be higher than last year," said Mr Nikolaus Senn, chairman. Mr Senn said cashflow during the first eight months of this year was equivalent to 77 per cent of cashflow for the whole of 1994.

He said provisions for bad loans and value adjustments in the second half would be lower than the SFr902m ($785m) reported for the first half. In early August, UBS dismayed investors by reporting a 10.4 per cent drop in net income and indicating uncertainty about whether full-year profits would be up or down.

Meanwhile, UBS said a government investigation had concluded there was no intentional wrong-doing in the delayed and inaccurate reporting of some UBS transactions in its own shares during the run-up last autumn to an extraordinary shareholders' meeting. BK Vision, UBS's largest shareholder, which is contesting the outcome of a vote at the EGM, had questioned the Zurich stock exchange's statistics. BK has also taken various legal actions against UBS and its officers in connection with those share purchases. *Ian Rodger, Zurich*

3M considers reorganisation

Minnesota Mining & Manufacturing (3M) admitted it was failing to meet internal financial targets and was considering reorganisation, especially in its hard-pressed information, imaging and electronics (II&E) sector. The widely diversified Minneapolis-based manufacturing group said change was afoot. "We have moved portfolio management to the front-burner, if you will," said 3M.

The company committed publicly last year to expanding profit margins by three percentage points over a three-year period and but has so far has failed to achieve its target.

"We're targeting the II&E sector because that sector has got a lot of investment and [it's] not performing up to company levels. So we'll see change there," the company said. The group said it was "highly unlikely" that 3M would split into three parts. *Reuter, Chicago*

Telkom to sweeten local offer

Telkom, the state-owned Indonesian domestic telecommunications company slated to be partially listed in a simultaneous public offering in London, New York and Indonesia within the next two months, is likely to offer the Indonesian public incentives to buy its stock.

The move is aimed at developing an investor base in Indonesia, where most share trading is driven by foreign investors. Analysts say the lack of an investor base in Indonesia has hampered growth of the Jakarta Stock Exchange.

The government is considering either offering bonus Telkom shares or selling shares at a discount to Indonesian investors. The issue, which should raise between $2bn and $3bn globally, is expected to be the largest IPO yet in Indonesia's privatisation programme. The global offer will be marketed through syndicates managed by Goldman Sachs, Lehman Brothers, Merrill Lynch and SBC Warburg. The domestic tranche will be managed by Bahana, Danareksa, Jardine Fleming Nusantara and Makindo. *Manuela Saragosa in Jakarta*

Swedish lift-truck maker to go public

By Christopher Brown-Humes in Stockholm

BT Industries of Sweden, one of the world's top 10 lift-truck groups, plans to go public this autumn.

More than 50 per cent of the company's shares are to be offered to Swedish and international institutions by the current owners, which include the KF co-operative group and a consortium of Swedish institutions led by Nordic Capital.

The offer will also feature a Swedish retail tranche to help BTI get the broad base of shareholders needed for a listing on the Stockholm Stock Exchange. Analysts estimate the company's market value at more than SKr2bn ($289m).

The move comes a year after Nordic Capital bought a majority 52 per cent stake in the company. KF, which sold that stake, retained 46 per cent of the company and BTI management took 2 per cent.

Mjölby-based BTI rebounded from three consecutive years of losses to record 1994 pre-tax profits of SKr202m on sales of SKr3.78bn. Its problems were caused by market overcapacity, lack of strategic focus, and a costly foray into automated handling equipment. Global co-ordinator of the issue is Kleinwort Benson in London.

The Swedish group has restructured and is now enhancing its position in a reviving market. Its share of the European market for warehouse lift trucks has risen from 12 per cent to 17 per cent since 1991, making it continental Europe's third largest producer after German rivals Linde and Jungheinrich.

In the US, the company has a 12 per cent market share and it is looking to boost its presence in Asia. It has increased competitiveness by doubling productivity, launching new products, and halving lead times over the last four years.

The group's debt-to-equity ratio, which soared above 220 per cent in 1993, has fallen to below 100 per cent.

Many of its customers are involved in retail and wholesale grocery.

Hungary puts five gas distributors up for sale

By Virginia Marsh in Budapest

Several of Europe's largest energy companies, including RWE Energie, Ruhrgas, British Gas, Italgas and Gaz de France, have expressed an interest in acquiring one or more of Hungary's five regional gas distribution companies (GDCs).

These are the first such companies to come up for privatisation in the former East bloc. A stake of 50 per cent plus one vote in each of the companies is being sold under radical plans to privatise much of the country's energy sector.

APV Rt, the privatisation authority, which is being advised by N.M. Rothschild, the UK merchant bank, said 16 companies or consortia had prequalified to participate in the privatisation.

Companies have until November 20 to enter bids in the first of up to three rounds for the five GDCs, which had a combined nominal book value of Ft44.5bn ($450m) at the end of 1994.

No bidder may purchase more than two GDCs while the company acquiring Tigaz, the largest of the five companies, may not buy any of the other GDCs.

Companies from Germany and Austria, among the most active investors in Hungary and the former East bloc, dominate the list of bidders.

As well as RWE Energie, Germany's largest electricity utility, and Ruhrgas, its largest gas company, Bayernwerk and Preussen Elektra, two regional utilities, have also qualified. Bayernwerk has also qualified as part of two consortia with Austria's EVN Energie.

Argentina auctions off Banco Federal

By David Pilling in Buenos Aires

Argentina's Banco Federal, a casualty of this year's banking crisis, will be taken over today when the central bank judges the winner of an auction for the suspended bank's assets.

Banco del Sud, partly owned by Mexico's Banamex, is believed to be the most likely winner, having offered to take over Federal's entire network, including the assets and liabilities of more than 30 regional branches. At the time of Federal's suspension in August, some $150m of deposits were frozen. The bank had not been returning customer deposits for several months.

Other offers to take over part of Federal's assets came from ABN Amro of the Netherlands and Citibank of the US. Domestic bidders were Quilmes, Roberts, del Suquia and Galicia, as well as a joint bid from Banco Francés and Banco Río.

Federal, an umbrella bank linking several regional institutions, was one of a handful of retail banks to be brought down by a run on deposits triggered by Mexico's devaluation last December. In a few months, deposits in the Argentine banking system fell 16 per cent to about $36.5bn, before beginning a slow recovery.

The auction of Banco Federal follows the sale of other banks such as Banco Integrado Departamental, the largest of the failed banks with more than 100 branches and deposits of $400m.

Western partners stranded by Polish mobile phone move

By Christopher Bobinski in Warsaw

A decision by Telekomunikacja Polska SA (TP SA), Poland's state-owned telephone operator, not to bid in a forthcoming tender for two GSM mobile telephone licences has effectively barred Ameritech and France Télécom, its two local partners, from the tender for a project worth up to $1.5bn in licence fees and investment outlays.

The decision, taken at the end of last week, has also rendered worthless a promise made by the Polish government in 1991 that TP SA, Ameritech and France Télécom would be awarded a GSM type operating licence when the requisite frequencies became available.

At the time, the Polish military was refusing to release the frequencies needed to operate a GSM network while it was recognised that the NMT technology, which enables domestic and not foreign connections, was fated to decline once the GSM network became operational.

The promise was made when the three partners won a tender to operate the NMT mobile telephone network as a joint company called Centertel and agreed that neither would bid separately for a GSM licence.

Ameritech and France Télécom then made a payment worth $75m to the Polish government to underpin the promise of a GSM licence.

TP SA has cited lack of funds and a failure by the two foreign partners to respect its interests in Centertel, in which it owns 51 per cent of the equity, as the reasons for not going ahead with the GSM bid.

The big foreign telephone companies interested in the tender – which include AT&T, US West and DT Mobile – have already identified local partners, which are legally required to own at least 51 per cent in the operating company.

This leaves Ameritech and France Télécom little time to conduct their own search, even were TP SA to release them from their obligation to bid jointly for a licence. Ameritech has indicated that it will not be pursuing the new licence without TP SA.

Ameritech appears to want to concentrate on developing the NMT network on which Centertel has spent $280m, mainly from retained earnings, and which now has 70,000 subscribers and covers 80 per cent of the country.

Centertel, whose financing has included a loan of up to $50m from the European Bank for Reconstruction and Development, would focus its activities away from large urban areas, where it is now concentrated, to the countryside and smaller towns as its present subscribers switch to the GSM operators.

The capacity of the NMT network is limited to 100,000 subscribers.

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FINANCIAL TIMES
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Global Investor / Martin Dickson

Washington's game of budget bluff

Is there really any substance to warnings that the US government might default on its debts? Or is this an empty threat, part of an elaborate game of budget bluff being played out in Washington?

The question could weigh increasingly over the next few weeks on financial markets which are currently much more focused on the uncertain prospects for European monetary union. The threat of default was raised two weeks ago by Newt Gingrich, the House speaker, who suggested the Republicans might hold up an increase in the $4,900bn (£3,161bn) federal debt ceiling if they could not reach agreement with the Clinton administration on a plan to balance the budget. No compromise is in sight, with the White House threatening to veto the Republican package and accusing Gingrich of irresponsibility.

If neither side budges, the crunch is likely to come on November 15, when the Treasury is due to make $25bn in interest payments – a sum which would cause it to breach its current debt ceiling. An immediate crisis might be staved off by short-term fixes, such as the Treasury freeing up some additional borrowing authority.

But at a very minimum there would be considerable disruption of the Treasury's auction schedule and a degree of uncertainty which could cause substantial market instability.

The idea of the US defaulting is so inherently improbable that many analysts dismiss the idea out of hand. Gingrich must be bluffing, runs the argument, because the ensuing market fall-out would be blamed by the electorate on the Republicans, and the increased yields demanded by investors would defeat the party's budget cutting aims.

At the same time, the White House will be under pressure to compromise, since much of the mud sent flying by a default would attach to the Democrats. A few are less sanguine, pointing out that there are plenty of Republican House freshmen and junior senators with scant regard for the workings of government.

They might be prepared to act, reasoning that the markets would not react too badly to a delay in interest payments if this eventually led to a substantial deficit reduction. So far the markets seem to be dismissing the default threat as little more than bluster.

Gingrich's remarks may have led to a brief wobble in Treasuries, but the focus remains far more on the renewed weakness of the dollar and further signs last week of an upturn in US economic activity. But with growth moderate and inflation subdued, the Federal Reserve is under no pressure to change its monetary stance, and seems likely to await the outcome of the budget battle before considering an interest rate move.

As for the dollar, a new perspective on its movements this year comes from the US fixed income research team at Salomon Brothers, who point to figures showing a greatly increased appetite by foreign investors for US securities (see chart).

They argue that "despite the obvious support from easier money policies abroad and central bank tactical efforts at bolstering the dollar versus the yen, US capital flow data point to fundamental factors behind the bottoming in the currency earlier this spring."

In contrast to default threats by the most creditworthy sovereign borrower, the past few days have brought better prospects for some of the world's most exotic fixed income paper – debt obligations of the five republics which used to make up Yugoslavia.

Last week's agreement on the outlines of a future Bosnian state underscores the upside potential of Yugoslavian New Financing Agreement (NFA) debt.

The NFA is a loan refinancing package signed in 1988 by Yugoslav banks. About $4.4bn is outstanding. The debt defaulted in 1992, shortly after Yugoslavia divided into five separate nations.

However, the entire sum remains the joint obligation of the five republics, and they can only be released from this by negotiation with a bank group representing the original lenders. Despite their joint liability, the debt remains traceable to an original obligor: some $3.4bn to entities in the five republics and $1bn at the federal level to the former National Bank of Yugoslavia.

This creates the basis for a division of the obligations between the successor states. Despite the Bosnian war, the more economically robust of the republics are anxious to reach agreement on restructuring their share of the debt so as to tap the capital markets.

Slovenia, the most creditworthy, with a low debt burden and solid economic growth, has already reached an agreement to take on 18 per cent of NFA obligations through the issue of bonds.

Croatia, which last week awarded the mandate for the country's first ever international equity issue, is in similar negotiations.

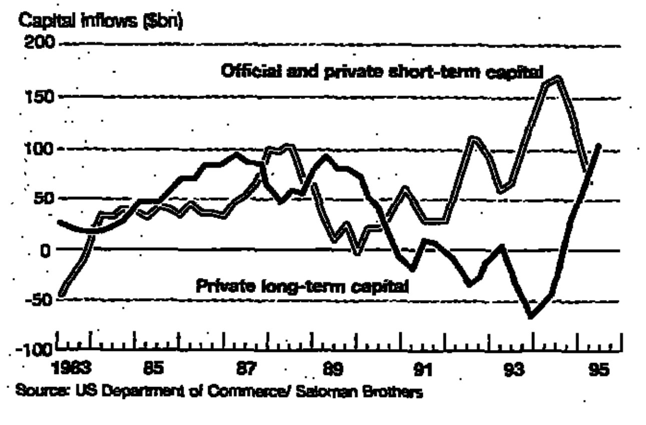
The value of NFA debt is the sum expected to be received from each republic as they reach restructuring deals. So valuing the debt depends on assessing if and when an agreement is likely, and what degree of forgiveness is requested.

Little progress will be possible until sanctions are lifted and some analysts suggest Serbia may not do a deal until 1998, and then with Brady-style forgiveness terms. Optimists see a shorter timetable and less forgiveness.

On a conservative view, analysts think NFA paper has a value of around 41, roughly where it is trading now, and up from 25 early this year. JP Morgan puts an optimistic case value of 65.9 on the paper, while Jerome Booth of ANZ Grindlays, who called attention to NFA undervaluation last march, reckons the upside could be more than 70.

But he also points out that the market is very illiquid. With peace prospects improving, few investors are inclined to take profits now.

US: the return of the foreign investor



Source: US Department of Commerce/ Salomon Brothers

Total return in local currency to 28/9/95

% change over period

	US	Japan	Germany	France	Italy	UK
Cash						
Week	0.11	0.01	0.08	0.11	0.19	0.13
Month	0.49	0.08	0.37	0.50	0.85	0.57
Year	6.13	2.63	5.63	6.38	9.81	7.44
Bonds 3-5 year						
Week	-0.18	0.04	-0.38	-0.77	-0.43	-0.69
Month	0.60	2.44	0.99	-0.28	0.91	0.41
Year	10.76	12.40	12.42	10.59	13.42	12.50
Bonds 7-10 year						
Week	-0.24	-0.01	-1.36	-1.41	-1.71	-1.63
Month	1.02	3.88	0.74	-0.54	0.22	0.09
Year	15.69	16.90	13.49	12.25	11.84	13.93
Equities						
Week	0.6	-0.2	-4.9	-3.9	-4.2	-2.0
Month	5.3	2.1	-2.7	-5.1	-3.4	-1.0
Year	29.8	-6.7	4.8	-2.1	-7.9	18.7

Source: Cash & Bonds - Lehman Brothers. Equities-© NatWest Securities. The FT-Actuaries World Indices are owned by The Financial Times Limited, Goldman Sachs & Co. and Standard & Poor's.

Economic Eye / Martin Wolf

The price of Emu

When, less than two weeks ago, Mr Theo Waigel, the German finance minister, told the Bundestag's finance committee that Italy and Belgium would fail to meet the public debt convergence criteria for economic and monetary union by 1998, this was hardly news to anyone. The shock came from the realisation that influential Germans might not swallow the Maastricht treaty's fudge – that ratios of public debt to gross domestic product above 60 per cent would be acceptable, provided they were "sufficiently diminishing and approaching [that] value at a satisfactory pace" – after all.

Mr Lamberto Dini, Italy's prime minister, then talked of postponing the starting date. But in Valencia this weekend, he backed down. European Union finance ministers agreed that January 1999 would be the starting point and that the convergence criteria would be "strictly applied". This was a holding operation. Since decisions about whether and how to proceed need not be be taken now, they will not be.

The recent squabble follows a historical pattern in which, first, political leaders of Germany and France agree to an ambiguous monetary arrangement intended to harness the Bundesbank to the European cart, but then, with one bound, that institution jumps free. This is what happened to the exchange rate mechanism after its foundation. It happened again in 1992 and 1993, after the Maastricht Treaty had been agreed. Now it is happening to Emu.

Mr Hans Tietmeyer, the Bundesbank's president, has already stated that the Bundesbank would make its own judgment on who should be allowed in. Chancellor Helmut Kohl did overrule the Bundesbank over German monetary union. But German unification was close to the heart of his people. Replacing the D-Mark with "Esperanto money" is not. The German government may be able to surrender the D-Mark. It is unlikely to ignore the Bundesbank's view of who its monetary partners should be.

The seriousness of the challenge to the rest of the EU was made clear by Mr Gerd Häusler, a member of the Bundesbank's directorate, last week, when he argued that "loyalty to the project of Emu is, in my opinion, expressed foremost by performance and much less through rhetoric. If Germany, only five years after unification, is able to meet the convergence criteria, then there is no reason for . . . 'soft' interpretations."

Precisely so. Countries that want to be inside Emu have every incentive to meet those standards, certainly more so than Germany, which is also burdened by the need to transfer 5 per cent of west German annual GDP to the eastern Länder. Nevertheless, Germany is the only member country to meet the fiscal criteria, apart from Luxembourg. Four years ago it was conceivable that post-unification Germany would be a high-inflation, fiscally sloppy country with a weak currency.

Now German public finances are in far better shape than not just Italy's or Spain's but also those of France.

The Bundesbank is no more enthusiastic about losing its power than any other institution would be, but many Germans, including industrialists, do see the political and economic advantages of a single European currency. Yet, they would also agree, as Mr Häusler stated, that "from the very first day the single currency must be able, without any ifs or buts, to replace the D-mark as an international reserve currency. Any compromise on this point would open the door to depreciation and to markedly higher interest rates."

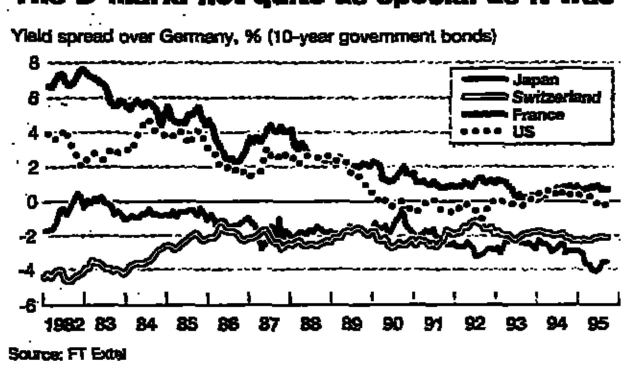
Some argue that the prospect of Emu is already undermining the D-Mark. As the chart shows, long-term US interest rates have been close to German levels since the fall of the Berlin Wall, while Japanese levels are far below them. The D-Mark is no longer so special: one reason, no worry to Germany, is the long Japanese recession; another is the improvement in US inflation performance; and, since the D-Mark has appreciated against the dollar in real terms since 1989, yet another could be the expectation that the dollar will appreciate in its turn. Given the D-Mark's recent strength, low German inflation and high unemployment, this is hardly a serious worry.

There has also been no significant move out of the range within which the gap between German and Swiss bond rates has fluctuated for much of the past 10 years. Instead, a movement in Germany's favour during 1991 and early 1992 has merely been reversed. The D-Mark has also devalued by 13 per cent against the Swiss franc since April 1993, but here too it has only lost ground won after unification.

As for the upward-sloping German yield curve, this is to be expected when monetary policy is so expansionary. The shape of the curve is quite similar to that of a year ago, while 10-year interest rates have fallen by about a percentage point since then. There is also no dramatic upward lurch in the curve after 1999.

So far, then, markets seem quite relaxed about the prospects for Emu, perhaps because they believe it will not happen, perhaps because they believe it will be a narrow, hard-currency union. Whether it happens depends principally on France. That it should, at least initially, be a narrow union is obvious, since a Emu that displeases the Germans could destroy the EU. So no country – even France – should consider participating unless certain that it can tolerate Germanic monetary policy, tight limits on fiscal discretion and a fixed exchange rate against Germany, *forever*.

The D-Mark: not quite as special as it was



Source: FT Extel

COMMODITIES — Kenneth Gooding

Strike threat to aluminium

The aluminium market will become increasingly nervous this week because strike action might affect smelters who are responsible for nearly 4 per cent of western world primary aluminium output.

One of the unions at the Quebec operations of Alcan, the second largest producer of the metal, says it will strike from October 6 if no agreement on a new wage package is reached by then.

Three smelters which are directly affected produce 484,000 tonnes of aluminium a year but the union also represents workers at Alcan's port and hydro electric facilities. And contracts at two other smelters in Quebec are linked with the deal being negotiated.

Aluminium prices on the London Metal Exchange remained stable last Friday because the two sides agreed to continue negotiating and traders pointed out that the deadline gave them time for agreement to be reached.

Also tomorrow, the European Aluminium Association holds its annual Press meeting to review the industry's performance and to discuss key economic issues.

The market will be waiting to hear what industry delegates have to say about the international trade agreement reached in Brussels in February that resulted in some of the big producers making substantial cuts in production to restore balance to a market which was destabilised by a surge of Russian imports.

More than 1m tonnes of annual capacity was temporarily shut down and much of this is expected to be brought back gradually into production from early next year.

Also this week the third Kazakhstan oil and gas conference takes place in Almaty today and tomorrow.

There is also a Mining Investment Summit in the City of London on the same two days.

On Friday the first general assembly of the Istanbul Gold Bourse is held.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by The Financial Times Ltd., Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by The Financial Times and Goldman Sachs in conjunction with the Institute of Actuaries and the Faculty of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY SEPTEMBER 29 1995 US Dollar Index	%chg since 30/12/94	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 30/12/94	Gross Div. Yield	THURSDAY SEPTEMBER 28 1995 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (82)	185.82	8.3	174.06	115.88	137.48	163.75	11.3	3.97	184.04	172.47	115.79	135.96	162.56	191.01	157.95	171.16
Austria (26)	180.67	-1.1	169.23	112.66	133.66	133.57	-9.2	1.34	180.06	168.74	113.28	133.04	132.95	199.28	167.48	184.83
Belgium (35)	195.61	16.1	183.23	121.98	144.71	141.01	6.7	3.71	194.98	182.73	122.67	144.06	140.45	201.12	181.66	185.22
Brazil (28)	152.53	-6.5	142.87	95.11	112.84	267.59	5.2	1.58	149.75	140.34	94.21	110.64	263.05	-	-	-
Canada (101)	144.53	11.7	135.38	90.13	106.93	140.98	7.3	2.63	144.04	134.99	90.82	106.43	140.93	150.83	121.81	138.52
Denmark (33)	282.30	12.1	264.43	176.04	208.84	212.04	1.7	1.53	280.25	262.63	176.32	207.07	210.60	295.99	236.61	250.42
Finland (25)	265.87	43.0	249.03	165.79	196.69	237.71	28.5	1.35	258.16	241.93	162.42	190.74	231.21	278.11	171.13	178.37
France (100)	172.85	5.7	161.91	107.79	127.88	133.14	-2.8	3.29	171.20	160.44	107.71	126.49	131.85	191.17	157.79	165.51
Germany (59)	159.47	11.3	149.38	99.44	117.97	117.97	2.2	2.02	158.65	148.68	99.82	117.22	117.22	167.74	134.99	140.26
Hong Kong (55)	375.42	15.1	351.65	234.10	277.74	372.84	15.0	3.85	373.94	350.43	235.26	276.29	371.23	399.17	277.40	399.17
Ireland (16)	249.46	21.0	233.67	155.56	184.55	217.19	15.4	3.49	247.65	232.08	155.81	182.98	215.72	249.46	195.34	206.63
Italy (59)	76.25	1.3	71.42	47.55	56.41	91.76	0.6	1.66	75.69	70.93	47.62	55.93	90.99	85.60	65.45	85.60
Japan (483)	147.76	-5.8	138.41	92.14	109.32	92.14	-6.9	0.83	146.04	136.86	91.88	107.90	91.88	164.82	136.95	160.28
Malaysia (107)	495.69	3.5	464.59	309.29	366.94	479.56	1.7	1.72	492.69	461.72	309.97	364.04	476.46	567.20	398.16	562.07
Mexico (18)	1092.12	-22.9	1022.98	681.02	807.94	7600.21	-0.3	1.83	1073.54	1006.05	675.41	793.19	7594.15	2302.16	647.81	2302.16
Netherland (19)	259.42	19.6	243.00	161.77	191.92	188.80	9.8	3.46	257.34	241.16	161.90	190.14	166.88	263.99	205.92	210.73
New Zealand (14)	78.83	11.9	73.84	49.16	58.32	63.57	8.8	4.51	77.75	72.87	48.92	57.45	63.06	85.49	69.56	72.77
Norway (33)	236.88	11.1	221.88	147.71	175.24	201.14	2.8	2.10	235.58	220.77	148.21	174.06	200.28	243.79	192.92	196.84
Singapore (44)	371.40	-0.4	347.89	231.60	274.77	243.21	-3.0	1.70	368.12	344.99	231.60	272.00	241.65	414.26	313.94	380.87
South Africa (45)	351.67	4.5	329.41	219.30	260.17	280.66	-6.4	4.15	351.18	329.11	220.94	259.48	279.96	363.22	281.06	312.87
Spain (38)	151.01	14.4	141.45	94.17	111.72	140.93	7.1	3.96	149.87	140.45	94.29	110.74	139.63	160.51	124.10	140.07
Sweden (48)	320.43	38.6	300.15	199.82	237.06	328.60	29.2	1.82	312.11	292.49	196.36	230.61	323.15	320.43	219.88	222.28
Switzerland (43)	215.21	30.3	201.58	134.20	159.21	153.30	14.4	1.74	214.08	200.62	134.69	158.18	152.30	216.36	158.38	163.89
Thailand (46)	163.05	3.1	152.73	101.67	120.62	158.71	3.0	2.57	163.07	152.82	102.59	120.49	158.82	-	-	-
United Kingdom (200)	224.72	15.3	210.49	140.13	166.25	210.49	14.0	4.11	222.76	208.76	140.15	164.59	208.76	227.07	187.07	192.79
USA (504)	239.12	27.4	223.96	149.11	176.90	239.12	27.4	2.46	239.64	224.58	150.77	177.06	239.64	239.87	182.33	188.77
Americas (651)	218.62	25.5	204.78	136.33	161.74	163.38	25.7	2.45	218.97	205.21	137.76	161.79	183.72	-	-	-
Europe (734)	195.12	15.5	182.77	121.87	144.35	164.17	8.0	3.08	193.42	181.26	121.69	142.91	162.76	199.02	163.04	168.76
Nordic (139)	295.02	31.4	276.34	183.97	218.26	255.34	21.3	1.72	288.69	270.54	181.63	213.30	251.35	295.02	213.93	216.80
Pacific Basin (831)	158.25	-3.7	148.23	98.68	117.08	102.71	-4.8	1.25	156.54	146.70	98.48	115.66	102.37	173.52	145.93	170.19
Euro-Pacific (1565)	173.51	4.4	162.53	108.20	128.36	125.94	0.8	2.11	171.81	161.01	108.09	126.94	125.21	178.33	154.73	169.46
North America (605)	233.27	26.7	218.50	145.46	172.57	232.55	26.5	2.46	233.73	219.04	147.05	172.70	233.03	233.93	178.86	185.84
Europe Ex. UK (534)	174.93	15.6	163.85	109.08	129.41	138.59	6.3	2.51	173.41	162.50	109.10	128.12	137.37	179.46	146.45	152.01
Pacific Ex. Japan (348)	258.26	6.4	241.91	161.05	191.06	226.10	8.5	3.22	256.49	240.37	161.37	189.51	224.83	266.72	211.19	265.81
World Ex. US (1757)	174.50	4.3	163.45	108.61	129.09	129.51	0.8	2.15	172.82	161.96	108.73	127.69	126.78	178.73	155.42	171.47
World Ex. UK (2061)	191.32	11.9	179.21	119.30	141.54	156.35	9.4	2.07	190.44	178.47	119.81	140.71	156.04	191.32	163.46	174.56
World Ex. Japan (1778)	220.40	20.0	206.44	137.43	163.05	205.20	17.4	2.76	219.78	205.97	138.28	162.39	204.69	220.98	178.95	186.69
The World Index (2261)	194.25	12.2	181.95	121.13	143.70	161.11	9.8	2.27	193.27	181.12	121.59	142.80	160.70	194.25	165.92	176.16

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local); Brazil, Thailand and Americas, Oct 31, 1994 = 180.44 (US $ Index), 164.07 (Pound Sterling) and 149.94 (Local). Constituent change during the week ending 29/9/95: Deletion: Santa Fe Pacific (USA).

EMERGING MARKETS: This Week

The Emerging Investor / Daniel Dombey

Mexican bolsa suffers from jitters

When the Mexican bolsa's leading index touched 2622 points on September 8, local stockbrokers talked eagerly about it advancing to between 2900 and 3000 by the year-end, twice the low point of 1447 reached in late February.

But then the IPC index of 37 leading shares shifted downward, taking in a fall of 8.4 per cent in four trading days, before rallying to close at 2392 at the end of last week.

The swings showed plenty of downside in a fragile market at a time when Mexico is still anxiously waiting for relief from its devaluation-inspired recession.

Yet they also coincided with the country's continuing success in re-opening access to international capital markets that had previously seemed set to remain closed for some time.

"The changes in the stock and money markets have been driven by domestic events and also some concern among foreign investors that the recession is going to last a little bit longer and the recovery will be a little bit weaker than people thought before", said Mr Luis R Luis, head of emerging market fixed income research at Scudder, Steven and Clark in Boston.

Interest in the market was damped down when investors failed to see the decrease in US interest rates that they had anticipated. The Mexican peso fell along with the stock market for most of the week, reaching a low point of 6.47 per dollar during trading on September 28, down from 6.3 a week before.

The interest rate on benchmark 28-day government paper shot up 2 points to 34 per cent last week, further depressing investors.

A series of statements by senior figures in the ruling Institutional Revolutionary

The markets gloom was deepened by talk that the country's trade minister had resigned and that its largest labour unions might formally leave the near-defunct government sponsored wage-price agreement and increase inflationary expectations, though official denials soon appeared

Party expressing criticism of the country's recent administration also worried investors, since Mexico's political culture is not used to channeling high-level dissent.

The markets' gloom was deepened by talk that the country's trade minister had resigned and that its largest labour unions might formally leave the near-defunct government sponsored wage-price agreement and increase inflationary expectations, though official denials soon appeared.

"The market was weak to begin with", said Mr Gustavo Terán, head of analysis at Bursamex, a Mexico City stockbroker. "It was looking for positive news, which it did not get in September. Instead, you saw political rumblings that spooked people out. I don't think this was based on fundamentals."

However, in the wake of a contraction in gross domestic product of 10.5 per cent in the 12 months to June this year, worries about the length of the recession pre-occupied many of the dedicated foreign funds with the ability to shift the market in low trading.

Larger, global funds have been slow to return to Mexico after the devaluation.

A peso 1.7bn ($265m) infrastructure fund that, it had been hoped, would help the economy start moving again, seemed unlikely to do so to a great extent.

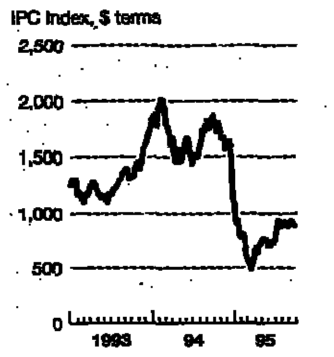
Though the funds are intended to serve as "seed money" for private capital, current tough monetary conditions make private infrastructure financing particularly difficult.

The effects of a recent government-banks initiative to reduce interest payments on millions of small and medium loans on the country's high level of bad debt, one of its most serious economic problems, also remained unclear.

In tandem with the more bearish sentiment taking hold last week, a report released by

Mexico

IPC Index, $ terms



Source: FT Extel

the Organization for Economic Co-operation and Development, of which Mexico is a member, forecast growth for next year of only around 2.5 per cent and argued that the administration should seek a fiscal surplus for next year rather than the balanced budget it is aiming for.

"The economy has done a reasonably good job of dealing with the emergency", said Mr Felix Boni, an analyst with James Capel in Mexico City. "Now people are beginning to ask where we go from here and with most of the (dollar-linked) tesobonos paid, now that we're moving beyond crisis management, the future direction of the economy is uncertain."

The recovery of the last two trading days of the week failed to inspire optimism. The stock market was up 1.6 per cent on Thursday's close and 0.5 per cent on Friday.

"The rebound was a government led phenomenon", said a trader. The federal government was thought to have intervened in the money markets mid-week to bolster the peso after a long period of absence, and also to have bought stocks through Nafinsa, a development bank.

Analysts also said that it was likely that the central bank had used its influence with commercial banks to restrict inter-bank trading and possible downward trends on the peso.

However, the markets' turbulence coincided with a flurry of good news for the country's international borrowers.

In recent days, Alfa, one of the country's leading corporates, announced a convertible bond issue of $130m, a type of placement which had been widely trailed by bankers eager to look for financing from investors still unsure about Mexican shares.

Tamsa, the country's leading steel pipe manufacturer, announced it had placed $49.5m in commercial paper, and Grupo Posadas, a hotel company, also announced the placement of $13m in commercial paper. The Mexican government plans to carry out a Dm750m issue during this week.

"The debt issues are a lagging indicator, well behind the other markets", said Mr Boni. "But they do show how the worst of the financial crunch is over."

News round-up

■ Vancouver

The Vancouver stock exchange, best known for its speculative mining and energy listings, has opened a window to investors with an interest in Asia, *writes Bernard Simon in Toronto.*

The VSE has set up an Asian board comprising companies with "substantial interests" across the Pacific.

After six new additions this week, the Asian board now has 11 listings, with a combined market value of HK$1.8bn.

This represents about a quarter of the total capitalisation of the VSE's industrial and commercial listings.

The companies are based on both sides of the Pacific. They include a Hong Kong-based engineering and construction group specialising in swimming pools, a Chinese light truck manufacturer, a Singapore-based shipbuilder, and an investment group that manages funds for immigrants to Canada.

The VSE says that several dozen more companies have applied for an Asian board listing.

The exchange expects to add another group to the list next spring.

■ Egypt

Egypt's nascent stock exchange has started to recover after a difficult year of consolidation following its boom in 1994, *writes James Whittington in Cairo.*

Brokers said that a spate of sustained buying by institutional investors has pushed volumes up tenfold over the past fortnight.

New domestic mutual funds have taken the lead but foreign investors have also begun to make their mark. "There's a lot of mopping up with the institutions buying out the small retail investors who have become disillusioned with the market's performance," said Mr Mohamed Taymour of the Egyptian Financial Group.

The revival has been helped by leaks of company results due to be announced later this month. The price of shares in cement and paints companies and the banks have done particularly well.

Over the summer, the government has been consulting Egypt's financial community on how best to proceed with a programme of gradual privatisation – typically 10 per cent stakes at a time – of state companies through the bourse.

Brokers hope the programme, on hold since July, will be pursued with renewed vigour this month, as promised by the public sector minister, Mr Atef Obeid.

The controversial auction system used for pricing shares earlier this year has been abandoned for fixed prices and the equity will be divided into smaller units to satisfy demand.

■ Briefly

- Vietnam's first stock market is due to open next year with trading floors in Hanoi and Ho Chi Minh City, *Reuter reports from Hanoi.*
- The Venezuelan government has selected Merrill Lynch to handle the privatisation of its aluminium sector which is set for next year.
- PT HSBC Securities Indonesia and James Capel Asia will hold a conference on the Indonesian stock market in Jakarta on October 9 and 10.
- The composition of the Slovenian stock exchange index will be changed today and include only eight shares instead of 12. Excluded will be the shares of drug company Lek and all preferential shares in Komercialna banka Triglav, consultancy Primofin and bank Vipa.

● *Edited by John Pitt. Further coverage of emerging markets appears daily on the World Stock Markets page.*

CURRENCY MARKETS Philip Gawith

Markets wait on G7 meeting

A combination of US economic data and the G7 gathering in Washington should be sufficient to provide currency markets with the fresh trading direction they are searching for.

Last week was effectively a stalemate, with no decisive developments either in Europe or the US.

This week the focus will initially be with Europe, as markets sift through the aftermath of the meeting of EU finance ministers and central bankers in Valencia.

Traders are watching anxiously for any signs of a retreat from the January 1 1999 starting date for monetary union.

If the week starts in Europe, it ends in the US. Friday sees the release of the key US jobs report, which serves as an important barometer of the likely direction of Fed interest rate policy.

Recently the dollar has tracked the bond market, suggesting that it would welcome a weak report.

The other important focus will be on the weekend G7 meeting in Washington, ahead of the annual general meeting of the IMF and World Bank. Markets will be looking for a strong re-affirmation of the commitment, made in April, to an "orderly reversal" of currency market movements.

If the market is left in doubt on this point, heavy dollar selling could well follow.

In the interim, traders will be keeping a wary eye out for renewed central bank support for the dollar.

Another factor to watch for will be Japanese capital flows, now that a new financial half-year has begun.

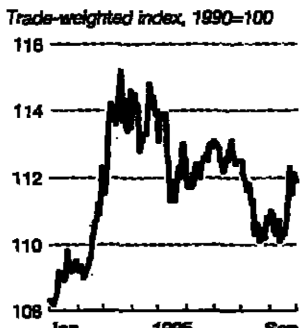
Mr Mark Cliffe, strategist at HSBC Markets in London, points out that October is traditionally the month of heaviest foreign bond purchases by Japanese institutions.

If repeated, this would push the yen lower.

The enthusiasm of Japanese investors for US bonds will be influenced by the payrolls report.

D-Mark

Trade-weighted index, 1990=100



Source: Bank of England

Evidence of economic weakness, Mr Cliffe argues, could trigger record buying.

Baring Securities emerging markets indices

Index	22/9/95	Week on week movement Actual	Week on week movement Percent	Month on month movement Actual	Month on month movement Percent	Year to date movement Actual	Year to date movement Percent
World (352)	146.98	-3.11	-2.07	-0.57	-0.39	-11.05	-6.99
Latin America							
Argentina (23)	78.75	-1.51	-1.88	-0.22	-0.28	-7.36	-8.55
Brazil (22)	197.76	-5.96	-2.93	-1.95	-0.98	-11.61	-5.55
Chile (13)	186.79	-5.06	-2.64	-3.575	-1.87	-24.78	-11.71
Mexico (24)	75.59	-4.33	-5.42	-2.48	-3.18	-22.04	-22.58
Peru (15)	1,007.37	-55.60	-5.23	-39.44	-3.77	+158.70	+18.70
Latin America (97)	122.97	-4.57	-3.58	-2.23	-1.78	-15.80	-11.39
Europe							
Greece (18)	106.93	-1.00	-0.93	+2.72	+2.61	+19.94	+22.92
Portugal (22)	115.68	+0.23	+0.20	+2.77	+2.46	-0.60	-0.51
Turkey (21)	98.61	-3.59	-3.51	-11.37	-10.34	+22.50	+29.56
South Africa (34)	138.00	+0.06	+0.04	+3.08	+2.28	+10.06	+7.86
Europe (95)	114.29	-0.33	-0.29	+1.53	+1.35	+16.60	+16.99
Asia							
Indonesia (28)	141.40	-1.74	-1.22	-6.18	-4.19	+7.71	+5.77
Korea (24)	150.81	-1.12	-0.74	+14.82	+10.90	+10.92	+7.81
Malaysia (21)	227.41	-5.18	-2.23	-2.95	-1.28	+16.56	+7.85
Pakistan (16)	87.47	-3.52	-3.86	-5.73	-6.15	-18.73	-17.64
Philippines (14)	262.97	-7.34	-2.71	-13.17	-4.77	-19.15	-6.79
Thailand (25)	251.20	-2.59	-1.02	-6.46	-2.51	-0.44	-0.18
Taiwan (32)	130.69	+1.82	+1.42	+5.16	+4.11	-53.46	-29.03
Asia (160)	206.71	-2.62	-1.25	+0.60	+0.29	-3.90	-1.85

All indices in $ terms, January 7th 1992=100. Source: Baring Securities

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, September 29, 1995. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	7030.35	4442.00	3121.57	4502.79
Albania	(Lek)	148.932	94.1000	66.1279	95.3877
Algeria	(Dinar)	79.5536	50.2645	35.3229	50.9524
Andorra	(French Fr)	7.7713	4.9102	3.4506	4.9774
	(Sp Peseta)	194.973	123.190	86.5706	124.876
Angola	(Kwanza)	9008.72	5692.00	4000.00	5769.89
Antigua	(E Carr $)	4.2733	2.7000	1.8974	2.7370
Argentina	(Peso)	1.5825	0.9999	0.7027	1.0136
Armenia	(Dram)	645.583o	407.900	286.648	413.482
Aruba	(Florin)	2.8330	1.7900	1.2579	1.8145
Australia	(Aus $)	2.0969	1.3249	0.9310	1.3430
Austria	(Schilling)	15.8459	10.0120	7.0358	10.1490
Azerbaijan	(Manat)	6955.95o	4395.00	3088.55	4455.14
Azores	(Port Escudo)	236.590	149.485	105.049	151.531
Bahamas	(Bahama $)	1.5827	1	0.7027	1.0137
Bahrain	(Dinar)	0.5967	0.3770	0.2649	0.3822
Balearic Is	(Sp Peseta)	194.973	123.190	86.5706	124.876
Bangladesh	(Taka)	63.1496	39.9000	28.0394	40.4460
Barbados	(Barb $)	3.1833	2.0113	1.4134	2.0388
Belarus	(Rouble)	18201.0o	11500.0	8081.52	11657.4
Belgium	(Belg Fr)	46.2624	29.2300	20.5411	29.6300
Belize	(B $)	3.1654	2.0000	1.4055	2.0274
Benin	(CFA Fr)	777.130	491.020	345.060	497.740
Bermuda	(Bermudian $)	1.5827	1	0.7027	1.0137
Bhutan	(Ngultrum)	53.6931	33.9250	23.8405	34.3893
Bolivia	(Boliviano)	7.7078	4.8700	3.4223	4.9366
Botswana	(Pula)	4.4334	2.8011	1.9685	2.8395
Brazil	(Real)	1.5084	0.9531	0.6698	0.9661
Brunei	(Brunei $)	2.2490	1.4210	0.9986	1.4404
Bulgaria	(Lev)	107.655	68.0200	47.8004	68.9506
Burkina Faso	(CFA Fr)	777.130	491.020	345.060	497.740
Burma	(Kyat)	8.9616	5.6622	3.9791	5.7397
Burundi	(Burundi Fr)	391.560	247.400	173.856	250.786
Cambodia	(Riel)	3640.21	2300.00	1616.30	2331.47
Cameroon	(CFA Fr)	777.130	491.020	345.060	497.740
Canada	(Canadian $)	2.1318	1.3470	0.9466	1.3654
Canary Is	(Sp Peseta)	194.973	123.190	86.5706	124.876
Cp. Verde	(CV Escudo)	131.317	82.9700	58.3064	84.1054
Cayman Is	(CI $)	1.3108	0.8282	0.5820	0.8395
Cent. Afr. Rep	(CFA Fr)	777.130	491.020	345.060	497.740
Chad	(CFA Fr)	777.130	491.020	345.060	497.740
Chile	(Chilean Peso)	631.181	398.800	280.253	404.258
China	(Yuan)	13.1657	8.3186	5.8457	8.4323
Colombia	(Col Peso)	1525.51	964.500	677.799	977.698
Comoros	(Fr)	608.944	384.750	270.380	390.015
Congo	(CFA Fr)	777.130	491.020	345.060	497.740
Costa Rica	(Colon)	294.540	186.100	130.780	188.647
Côte d'Ivoire	(CFA Fr)	777.130	491.020	345.060	497.740
Croatia	(Kuna)	8.3871	5.2993	3.7240	5.3718
Cuba	(Cuban Peso)	1.5827	1	0.7027	1.0137
Cyprus	(Cyprus £)	0.7121	0.4499	0.3162	0.4561
Czech Rep.	(Koruna)	41.7356	26.3700	18.5313	26.7309
Denmark	(Danish Krone)	8.7405	5.5225	3.8809	5.5981
Djibouti Rep	(Djib Fr)	276.972	175.000	122.980	177.395
Dominica	(E Carib $)	4.2733	2.7000	1.8974	2.7370
Dominican Rep	(D Peso)	21.6988	13.7100	9.6348	13.8976
Ecuador	(Sucre)	3992.35o	2522.50	1772.66	2557.02
Egypt	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
El Salvador	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Equat'l Guinea	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Estonia	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ethiopia	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Falkland Is	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Faroe Is	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Fiji Is	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Finland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Fr. Cty/Africa	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Fr. Guiana	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Fr. Pacific Is	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Gabon	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Gambia	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ghana	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

		£ STG	US $	D-MARK	YEN (X 100)
Gibraltar	(Gib £)	1	0.6318	0.4440	0.6405
Greece	(Drachma)	366.791	231.750	162.860	234.921
Greenland	(Danish Krone)	8.7405	5.5225	3.8809	5.5981
Grenada	(E Carr $)	4.2733	2.7000	1.8974	2.7370
Guadeloupe	(Local Fr)	7.7713	4.9102	3.4506	4.9774
Guam	(US $)	1.5827	1	0.7027	1.0137
Guatemala	(Quetzal)	9.2957	5.8733	4.1274	5.9537
Guinea	(Fr)	1571.15	992.700	697.611	1006.28
Guinea-Bissau	(Peso)	28545.6	18036.0	12674.8	18282.8
Guyana	(Guyanese $)	227.592	143.800	101.054	145.768
Haiti	(Goude)	30.0713	19.0000	13.3521	19.2600
Honduras	(Lempira)	14.9724	9.4600	6.6479	9.5895
Hong Kong	(HK $)	12.2387	7.7315	5.4332	7.8373
Hungary	(Forint)	205.775	130.015	91.3668	131.794
Iceland	(Icelandic Krona)	102.116	64.5200	45.3408	65.4029
India	(Indian Rupee)	53.6931	33.9250	23.8405	34.3893
Indonesia	(Rupiah)	3588.40	2268.00	1592.41	2297.01
Iran	(Rial)	4748.10u(2)	3000.00	2108.22	3041.05
Iraq	(Iraqi Dinar)	0.9496	0.6000	0.4217	0.6082
Irish Rep	(Punt)	0.9779	0.6179	0.4342	0.6263
Israel	(Shekel)	4.7445	2.9978	2.1067	3.0388
Italy	(Lira)	2550.52	1611.50	1132.47	1633.55
Jamaica	(Jamaican $)	52.6246	33.2500	23.3661	33.7050
Japan	(Yen)	156.133	98.6500	69.3254	100
Jordan	(Jordanian Dinar)	1.1253	0.7110	0.4996	0.7207
Kazakhstan	(Tenge)	96.8612	61.2000	43.0077	62.0375
Kenya	(Kenya Shilling)	88.0772	55.6500	39.1075	56.4116
Kiribati	(Australian $)	2.0969	1.3249	0.9310	1.3430
Korea North	(Won)	3.4028	2.1500	1.5109	2.1794
Korea South	(Won)	1215.83	768.200	539.845	778.713
Kuwait	(Kuwaiti Dinar)	0.4728	0.2988	0.2100	0.3029
Laos	(New Kip)	1456.08	920.000	646.521	932.590
Latvia	(Lats)	0.8476	0.5355	0.3763	0.5428
Lebanon	(Lebanese £)	2548.94	1610.50	1131.76	1632.54
Lesotho	(Maluti)	5.7788	3.6513	2.5659	3.7013
Liberia	(Liberian $)	1.5827	1	0.7027	1.0137
Libya	(Libyan Dinar)	0.5627	0.3555	0.2498	0.3604
Liechtenstein	(Swiss Fr)	1.8188	1.1490	0.8074	1.1647
Lithuania	(Litas)	6.3309	4.0000	2.8110	4.0547
Luxembourg	(Lux Fr)	46.2624	29.2300	20.5411	29.6300
Macao	(Pataca)	12.6445	7.9892	5.6143	8.0985
Macedonia	Denar	62.3007	39.3004	27.6180	39.8382
Madagascar	(MG Fr)	7122.15	4500.00	3162.33	4561.56
Madeira	(Port Escudo)	236.590	149.485	105.049	151.531
Malawi	(Kwacha)	23.9779	15.1500	10.6465	15.3573
Malaysia	(Ringgit)	3.9734	2.5105	1.7642	2.5449
Maldive Is	(Rufiya)	18.6284	11.7700	8.2713	11.9311
Mali Rep	(CFA Fr)	777.130	491.020	345.060	497.740
Malta	(Maltese Lira)	0.5553	0.3509	0.2466	0.3557
Martinique	(Local Fr)	7.7713	4.9102	3.4506	4.9774
Mauritania	(Ouguiya)	209.428	132.320	92.9867	134.131
Mauritius	(Maur Rupee)	28.2116	17.8250	12.5264	18.0689
Mexico	(Mexican Peso)	10.0739	6.3650	4.4729	6.4521
Miquelon	(Local Fr)	7.7713	4.9102	3.4506	4.9774
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

		£ STG	US $	D-MARK	YEN (X 100)
Pakistan	(Pak. Rupee)	49.8844	31.5185	22.1493	31.9498
Panama	(Balboa)	1.5827	1	0.7027	1.0137
Papua New Guinea	(Kina)	2.0963	1.3245	0.9308	1.3426
Paraguay	(Guarani)	3106.05	1962.50	1379.13	1989.36
Peru	(New Sol)	3.5564	2.2470	1.5791	2.2777
Philippines	(Peso)	41.2373	26.0550	18.3099	26.4116
Pitcairn Is	(£ Sterling)	1	0.6318	0.4440	0.6405
	(NZ $)	2.4041	1.5189	1.0673	1.5396
Poland	(Zloty)	3.8497	2.4324	1.7093	2.4657
Portugal	(Escudo)	236.590	149.485	105.049	151.531
Puerto Rico	(US $)	1.5827	1	0.7027	1.0137
Qatar	(Riyal)	5.7626	3.6410	2.5587	3.6908
Reunion Is. de la	(F Fr)	7.7713	4.9102	3.4506	4.9774
Romania	(Leu)	3426.54	2165.00	1521.43	2194.69
Russia ‡	(Rouble)	0.9906o	0.6259	0.4399	0.6345
	(Rouble)	7119.77m	4498.50	3161.26	4560.06
Rwanda	(Fr)	478.306	302.210	212.375	306.346
St Christopher	(E Carr $)	4.2733	2.7000	1.8974	2.7370
St Helena	(£)	1	0.6318	0.4440	0.6405
St Lucia	(E Carr $)	4.2733	2.7000	1.8974	2.7370
St Pierre	(French Fr)	7.7713	4.9102	3.4506	4.9774
St Vincent	(E Carr $)	4.2733	2.7000	1.8974	2.7370
San Marino	(Italian Lira)	2550.52	1611.50	1132.47	1633.55
Sao Tome	(Dobra)	2288.20	1445.76	1015.99	1465.54
Saudi Arabia	(Riyal)	5.9361	3.7508	2.6357	3.8019
Senegal	(CFA Fr)	777.130	491.020	345.060	497.740
Seychelles	(Rupee)	7.6587	4.8390	3.4006	4.9052
Sierra Leone	(Leone)	1194.94	755.000	530.569	765.332
Singapore	($)	2.2490	1.4210	0.9986	1.4404
Slovakia	(Koruna)	46.8440	29.5975	20.7994	30.0025
Slovenia	(Tolar)	193.388	122.189	85.8671	123.861
Solomon Is	($)	5.3834	3.4014	2.3903	3.4480
Somali Rep	(Shilling)	4146.67	2620.00	1841.18	2655.85
South Africa	(Rand)	5.7788	3.6513	2.5659	3.7013
Spain	(Peseta)	194.973	123.190	86.5706	124.876
Spanish Ports in N Africa	(Sp Peseta)	194.973	123.190	86.5706	124.876
Sri Lanka	(Rupee)	82.6169	52.2000	36.6831	52.9143
Sudan Rep	(Dinar)	83.2979	52.6300	36.9852	53.3502
Surinam	(Guilder)	782.194	494.190	347.287	500.953
Swaziland	(Lilangeni)	5.7788	3.6513	2.5659	3.7013
Sweden	(Krona)	10.9637	6.9272	4.8680	7.0220
Switzerland	(Fr)	1.8188	1.1490	0.8074	1.1647
Syria	(£)	66.3151	41.9000	29.4449	42.4734
Taiwan	($)	42.8603	27.0815	19.0172	27.4518
Tanzania	(Shilling)	954.369	603.000	423.759	611.252
Thailand	(Baht)	39.6942	25.0800	17.6247	25.4232
Togo Rep	(CFA Fr)	777.130	491.020	345.060	497.740
Tonga Is	(Pa'anga)	2.0969	1.3249	0.9310	1.3430
Trinidad/Tobago	($)	9.0293	5.7050	4.0091	5.7831
Tunisia	(Dinar)	1.4847	0.9381	0.6592	0.9509
Turkey	(Lira)	77912.4	49227.5	34594.2	49901.2
Turks & Caicos	(US $)	1.5827	1	0.7027	1.0137
Tuvalu	(Australian $)	2.0969	1.3249	0.9310	1.3430
Uganda	(New Shilling)	1551.05	980.000	688.686	993.411
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Special Drawing Rights September 29, 1995 United Kingdom [illegible] Germany [illegible] Japan [illegible] European Currency Unit Rates September 29, 1995 United Kingdom [illegible]

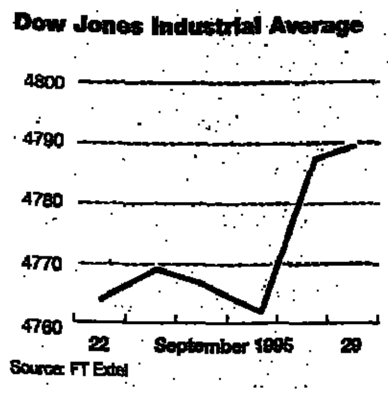
Abbreviations: [illegible]

EQUITY MARKETS: This Week

NEW YORK

Lisa Bransten

Crucial data should shed economic light



October is always a scary month on the stock market, so this week's market may well retain the skittish tone that led to last week's roller-coaster ride.

One factor contributing to the market's edginess is the general uncertainty about the strength of the economy in the wake of mixed economic data showing manufacturing activity improving while consumer spending and confidence remains low.

This week, crucial data are set for release that should shed some light on the state of the economy. The most important statistic – the September jobs figure – is due on Friday. The median estimate holds that about 150,000 non-farm jobs were added to the economy in September on the heels of the 249,000 jobs added in August.

Economists from Salomon Brothers say: "Although payroll employment growth undoubtedly slowed from the heady clip in August, the rate of hiring, combined with snap-backs in the average work-week and mean hourly earnings should mean a return to near-trend growth."

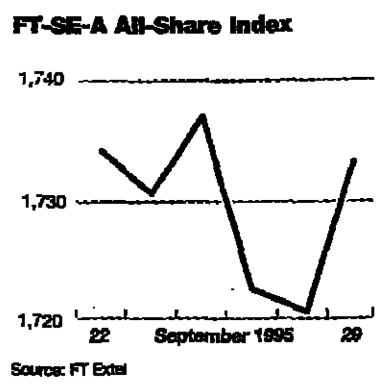
Also important will be Monday's release of the National Association of Purchasing Management's index of September business activity. Economists are looking for the index to have climbed to 50 per cent from August's reading of 46.9 per cent.

Wednesday sees the release of August factory orders data. Economists are expecting the figure to have risen 2.8 per cent after July's 1.1 per cent fall.

LONDON

Steve Thompson

Focus remains on long list of statistics



With only one FT-SE 100 constituent – Bank of Scotland – scheduled to report next week and precious little else from second and third-line companies, London's equity market will continue to focus on a long list of domestic and international economic statistics.

Some strategists see the start of the fourth quarter, which includes the November 28 budget, as likely to attract some serious institutional cash.

Others remain wary, however, pointing to the disappointing outcome of last week's £3bn gilts auction, which triggered a big sell-off in equities as well as government stocks.

The market will also be keeping a weather eye on the Labour Party Conference in Brighton for news of Labour's proposed windfall profits tax on the utilities, which caused some brief damage in the market last Monday.

The utilities sector has been the provider of much of the takeover activity that has enabled the two main indices, the FT-SE 100 and Mid 250, to keep within striking distance of their recent highs.

No fewer than six of the original 12 regional electricity stocks have already been bid for and, according to analysts, the remainder are being lined up as targets.

The market has also been responding to suggestions that other bids are waiting in the wings. There was exceptionally heavy activity in Grand Metropolitan shares last week.

OTHER MARKETS

FRANKFURT

The Bundesbank meeting on Thursday will have to balance recent worries about weakness in the dollar, and exporters' profit margins, against indications last week of an inflation rate slightly higher than expected, *writes William Cochrane.*

Mr Gebhard Klingenstein at BZW in Frankfurt, expects the central bank to keep interest rates where they are.

Meanwhile, some brokers expect RWE, the energy-based industrial conglomerate, to produce preliminary figures for the year to June on Friday, although the press conference to discuss the figures is not scheduled until October 26. Guided by indications in July of a net profits gain of at least 15 per cent, BZW expects to see DVFA earnings for RWE rise from DM22.50 to DM26.50 a share.

Finally, the insurance major, Allianz, is not expected to announce another rights issue at its AGM on Thursday, as rumoured last week. Brokers expect the company might want to increase its authorised capital; but the group made a one-for-14 rights issue, to raise some DM1.5bn, as recently as last June.

PARIS

Investors may be beginning to wonder just how much more pain they have got to endure in the French equity market, *writes John Pitt.*

Last week, Alcatel Alsthom unnerved everyone by reporting its first loss and then announced an expensive restructuring programme.

Some good news was to be gleaned from the automotive sector as the government announced a package of stimulation measures. This will help Peugeot, among other companies, and brokers are looking for interim profits in the order of FFr1.2bn, showing a substantial improvement from the very low levels of the 1994 first half.

Other results are expected from Axa and UAP, the insurers, although these are unlikely to excite the same order of interest.

AMSTERDAM

The stock market and option and future exchange introduces its midcap index from Wednesday. The index will comprise 25 stocks and continuously display the market movement of stocks in the middle segment of the main equity market.

The exchange said the main aim "is to create an index which will provide a reflection of the price movements in medium-sized Dutch companies, while also providing underlying value for derivative products, such as options and futures."

The 25 stocks are those immediately following the 25 that comprise the EOE index, and will account for some 8 per cent of the total market capitalisation. The EOE index accounts for 86 per cent of market cap.

MILAN

With the results season now out of the way, the market will still be absorbing last week's 1996 budget. First reactions to the budget measure were downbeat.

NatWest Markets took the view that the markets were rightly disappointed: the prime minister had not made the substantial cuts in spending that the precarious state of Italian government finances demanded. It concluded that there was little incentive to buy Italian markets at present, but it remained comfortable with longer-term prospects.

UBS noted that presentation of the budget was overshadowed by the apparent hardening of German opposition to the lira's participation in the ERM but it agreed that the package was devoid of substantive measures which would reduce the structural budget deficit.

UBS expected, however, to see shares recover a little this week on a technical bounce from the 620 support levels on the BCI index, but added that this depended on domestic unit trust activity. Currently, local funds were light sellers and daily trading volumes remained uninspired at around L500bn.

TOKYO

Currency movements may be the main focus for the week, with the high-technology and shipping sectors facing pressure if the yen strengthens, *writes Emiko Terazono.* Shipping companies earn their money in dollars and were favourites during the US currency's ascent during August.

Traders are also focused on futures prices as wariness over heavy arbitrage unwinding persists. Unless buying by overseas investors revives, traders fear that the large long arbitrage positions, totalling 2.2bn shares, are likely to weigh on confidence.

HONG KONG

Property shares, which attracted a bout of late buying on Friday afternoon, are likely to be a key investment focus early this week, but overall the market is expected to drift sideways, *writes Louis Lucas.* Investors will also pay attention to the week's US economic data.

Two big property companies report annual results: Sino Land, controlled by Robert Ng, announces today and Sun Hung Kai Properties follows on Thursday. Sentiment in the sector remains weak, especially following a lacklustre government auction last week, but some analysts are beginning to call the bottom of the market.

According to Peregrine Brokerage, Hong Kong's short-term outlook will be dictated by the likelihood of international liquidity boosting price/earning multiples and the release of homes on to the property market. Medium-term, the brokerage sees little upside for earnings growth, further noting that the imminence of the transition to Chinese rule will bring uncertainties to bear on the stock market.

Compiled by Michael Morgan

International offers

German issue fever puts Mittelstand on the map

The peculiar German attitude towards shares was highlighted recently in a survey about the quality of advice given by banks to their customers. The overall results were devastating, but equally interesting were some of the specific suggestions several financial advisers had to offer their clientele on the subject of shares.

One banker advised against anything that is traded on the financial markets. Another claimed that bonds carried absolutely no risk.

The troubling aspect is that the fundamental suspicion about shares is shared widely in the country, even among educated Germans. Many investors happily commit themselves to complex and sometimes dubious commercial property punts, while the purchase of a share in Deutsche Bank or Siemens is considered highly speculative.

Against the background of such scepticism a development has occured that could lead to a fundamental change in the public perception.

Germany is in the midst of new issue fever, as ever more companies, eager to fund foreign investments especially in Asia and the Americas, find their way to the stock market.

Last week, E. Merck, the privately-owned pharmaceutical company, and a household name in Germany, kicked off the planned flotation of 25 per cent of its enlarged share capital, hoping raise some DM2bn.

Depending on the final issue price, yet to be announced but to be based on a range of DM46 –DM56 per share, the flotation could be the largest yet in Germany and certainly one of biggest recent new issues in Europe.

Adidas, the sports goods manufacturer and even more of a household name, also confirmed long-standing speculation that it too will float part of the company to allow its owners to repay debt incurred when they purchased the majority stake. According to estimates, the company may float up to 50 per cent of its shares, hoping to raise some DM1.25bn to DM1.75bn.

Apart from these, a whole series of companies have entered the market this year. SKW Trostberg, the chemical company, raised DM911m. Others include Tarkett, manufacturer of floor coverings (DM240m), SGL Carbon, the producer of carbon and graphite products (DM308m) and Schwarz Pharma (DM262m).

One trend in the German new issue market is the tendency towards an Anglo-Saxon style of book-building, a method by which the price is not fixed from the outset but determined through the interaction of demand and supply.

The retail offer for shares in Telefónica, Spain's telecommunications company, was more than eight times oversubscribed when it closed on Friday, writes Richard Lapper. **Some 440,000 retail orders for Ptas500bn of shares were received. About 36 per cent of the $1.5bn offer is being directed to retail investors.**

The Spanish institutional offer – about eight per cent of the total – is also understood to be have been about three times oversubscribed. The company's employees are being offered the opportunity to buy about five per cent of the shares. Pricing of the issue will be announced either later today or tomorrow.

The generation change currently under way in the German Mittelstand - the medium-sized company sector - is bound to add to the trend towards new issues.

Many owners, and frequently founders, of those companies are nearing retirement, and find themselves having no suitable family successors to take over. As a result, a whole series of patriarchal companies somewhere in the backwoods of Germany are headed towards Frankfurt.

E. Merck or Adidas may act as symbols of such a trend, but what will focus the minds of German investors most is next year's flotation of Deutsche Telekom, the world's largest telecommunications operator.

Expectations in financial markets are that the issue will raise some DM15bn – give or take a billion – the largest flotation in European history.

As experience in the UK has shown, stocks in telecom monopolists or oligopolists prove highly popular among the general public. They combine a fortuitous combination of minimal risk with a good chance of growth, considering the nature of the sector.

In Germany, there is an old and highly controversial concept of the Volksaktie (a people's stock), a government-inspired initiative to attract the public to the stock market.

Deutsche Telekom shares could certainly assume such a role, whether by intent or by default. The flotation of Deutsche Telekom amounts to Germany's best chance in the immediate future for a decisive shift in attitudes.

The German propensity to save in the form of bonds rather than shares, however, is not just a consequence of irrational factors, such as misplaced risk-aversion, let alone memories of the 1930s.

The structure of the German tax system adds to the asymmetry of investments. German taxation is biased in favour of capital growth and against investment income, as profits on the sale of shares are to a large extent tax-free, while dividends are hit by the merciless brunt of tax system.

As an investment for retired people, who live off the proceeds of their savings, shares are unattractive because the tax system ensures that the income stream is lower than it would otherwise be. The vast majority of retirement portfolios contain not a single share.

The bias in the tax system in favour of capital and against income is among the most pressing issues in need of addressing by the government if Germany is to become a nation of shareholders.

However, such tax reform is currently not in the forefront of the political agenda, as the country's public finances – stretched to the limits because of the commitment to fund unification – currently allows little, if any, leeway to cut taxes.

Wolfgang Münchau

WORLD BOND MARKETS: This Week

NEW YORK

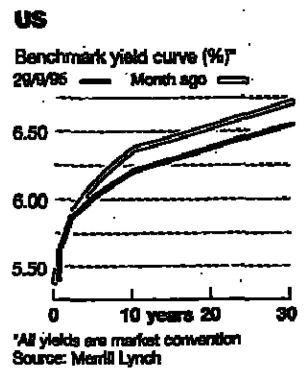
Maggy Urry

The Federal Reserve Open Market Committee's decision last Tuesday to leave interest rate policy unchanged, although expected, caused some disappointment in the bond market. The market is continuing to watch economic statistics to see when the next fall in interest rates might occur.

Last week's economic news was mixed, with some suggestions that the economy had begun to rebound in the third quarter. If growth picks up in the fourth quarter, fears of inflation will be reawakened. Last Thursday's sharp drop in initial unemployment claims, for example, threatens a stronger jobs market which could lead to higher wage increases.

This week brings more statistics on the job market in September. Forecasts for the unemployment rate, due Friday, suggest no change from August's 5.6 per cent, according to MMS International's survey. A rise of 150,000 is expected in non-farm payrolls, although this would be down from August's 249,000 increase.

Other statistics include the National Association of Purchasing Managers index, due today, which is expected to recover from August's 46.9 per cent to 50 per cent. August construction spending data, also due today, is forecast to have risen 0.6 per cent after July's cracking growth rate of 2 per cent.



*All yields are market convention
Source: Merrill Lynch

LONDON

Graham Bowley

Economic data for September due this week will provide gilt investors and traders with a hint of how the UK economy fared last month.

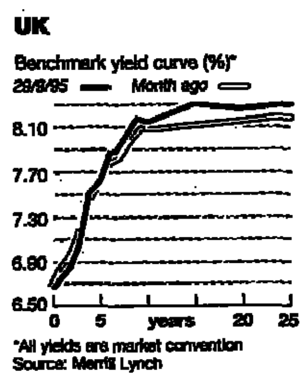
The purchasing managers' index, a good predictor of manufacturing performance, is due today. It has weakened in recent months and economists expect a further fall in September.

Mr Ian Shepherdson, UK economist at HSBC Markets, also expects the index's price component to show another fall, which "would be a signal that producer price inflation has peaked", he said.

M0 money supply growth has slowed in recent months and should show a further slowdown in September when data is released today.

Industrial production numbers for August are due Friday. HSBC expects manufacturing output to have rebounded after declining in July, but a fall in energy extraction and supply may offset this. A fall in manufacturing and a weak purchasing managers' index would strengthen calls for interest rate cuts and underpin the short-end of the gilts market, Mr Shepherdson said.

The Bank of England is to auction 20-year gilts later this month and 10-year gilts in early December, it announced on Friday. Some dealers thought that after last week's disappointing 10-year auction, the Bank would opt for a sale of five-year bonds.



*All yields are market convention
Source: Merrill Lynch

FRANKFURT

Graham Bowley

The German government bond yield curve could steepen this week, with the short end performing well on signs of economic slowdown while the long end could be held back ahead of supply next week.

Trading in bunds, however, is expected to be quiet today ahead of tomorrow's Unity Day holiday.

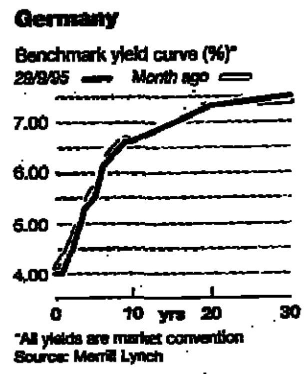
After a strong rise in both manufacturing orders and industrial production in July, data due this week could show a sharp reversal in August in both indicators.

Ms Ros Lifton, senior economist at Daiwa Bond Research in London, predicts a fall of about 2¾ per cent in both, bringing them in line with recent Ifo surveys which have shown that business confidence is weak.

Few economists expect the Bundesbank to cut interest rates at its council meeting on Thursday. But a further fall in the repo rate is expected at the central bank's money market operations on Wednesday – the consensus is for a drop of around 5 basis points from its current 4.08 per cent.

A large amount of 10-year supply is expected next week, which is likely to exert a negative influence on the 10-year area this week.

"If domestic investors are to take such a large volume of paper, they will require a reasonable coupon – which means 10-year yields are unlikely to move below 6½ per cent," said Ms Lifton.



*All yields are market convention
Source: Merrill Lynch

TOKYO

Emiko Terazono

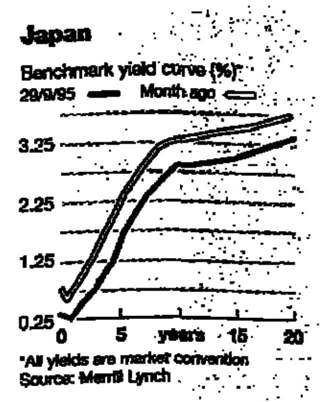
Continued buying by domestic institutions supported the bond market last week, in spite of selling ahead of the September interim book closing and volatility on the currency market.

The outlook for the market remains positive due to the steady flow of funds, partly because of buying by institutions and also by the Bank of Japan.

Conspicuous buying of government bonds by the central bank emerged in June. It is believed that the authorities are eager to stem a rise in long-term interest rates triggered by fears of oversupply and a shift in funds to overseas markets. This was implied by the MoF's fund flow deregulation package.

"The BoJ now manages the discount rate as a penalty rate like the Lombard in Germany, keeping the overnight rate below the ODR," says Mr Jesper Koll, economist at J.P. Morgan Securities in Tokyo. To offset the distortion in money market operations due to the fall in short-term money rates below the ODR, it is believed that the BoJ is manoeuvring its funding operations through the bond market.

The MoF has also suggested that about half the Y8,000bn extra bond issuance to finance the emergency package will be purchased by its Trust Fund Bureau, which manages the assets of the postal savings and state-run pension system.



*All yields are market convention
Source: Merrill Lynch

Syndicated loans

Banks line up for infrastructure finance

Infrastructure projects are generating increasing amounts of business for bankers in the syndicated loan market. Chase Manhattan last week finalised arrangements for a DM1.9bn syndicated loan for Turkey's Birecik hydroelectric dam, one of the biggest build-operate-transfer (BOT) infrastructure projects in the world this year.

Bankers are backing a number of other similar long-term projects, many of which are coming to fruition in the next few months. Deals are generating business for banks hungry for syndicated loan business, with margins falling in line with other market trends.

"There are many more deals being done this year," said Mr Rod Morrison, editor of Project Finance International. "The demand for project finance is rising as governments find it attractive to hand capital projects over to the private sector and more banks are moving into the sector."

Some 50 banks are participating in the Birecik deal – which was 30 per cent oversubscribed when completed in August – to build a 672 megawatt power plant and dam on the Euphrates River. Birecik – which has involved some seven years of preparatory work – is also the first ever agreed by Turkey.

The financing of the deal is complex, since it accommodates the participation of export credit agencies from four countries – France, Germany, Austria and Belgium. Companies from each of these countries are involved in the Birecik project company.

The agencies are guaranteeing DM1.39bn of the loan, with these funds being repayable over 15½ years. The remainder of the money – DM465m – has a tenor of eight years. Co-arrangers are Bayerische Landesbank, KfW, Generale Bank, Girocredit and Societé Générale.

The operators, Birecik Project Company – whose sponsors include Philipp Holzmann of Germany, various members of the Alcatel Alsthom Group in France and Belgium, Strabag of Austria, Sulzer Hydro of Germany, Gama of Turkey and Verbund Plan of Austria – will borrow funds at a rate of about 1 per cent over Libor on the portion guaranteed by the four credit rating agencies.

The margin for the rest of the money will be 225 basis points over Libor, which compares favourably with recent rates at which Turkish borrowers have accessed the loan and bond markets this year. Part of the reason for this is that the project carries some guarantees from the Turkish government, making it more attractive to bankers.

Turkey issued three-year dollar eurobonds at some 300 basis points over Treasuries last month. Turkish banks have been active borrowers in the syndicated markets, obtaining funds at all-in rates of about 100 basis points over Libor for one-year finance.

Birecik company will spend 5½ years in construction work and 15 years in operating the plant, before transfering ownership to the government.

The state-owned Turkiye Elektrik Uretim Iletim will buy electricity on a "take-or-pay" basis, providing the operating the company with funds to service the loans and a return on the DM300m share capital committed. Start-up revenues of DM100m will be ploughed back into the project.

Other project financing deals in the market include Indonesia's Tanjong Jati B power plant, while Chase is understood to be about to launch a facility of some $700m for Turkey's Izmit water supply project later this month. The Izmit scheme is one of a number of other Turkish deals in the pipeline. However a 6 per cent tax on lending, introduced last month, could make it more difficult for new projects which have not yet mandated banks to raise finance, say bankers.

Separately, the National Bank of Romania is shortly to re-enter the syndicated loan market, following a succession of deals involving Czech and Slovak banks. Like its counterparts further north, the central bank is likely to benefit from increased competition in the market, with margins on its loans falling sharply.

When it came to the market in March it borrowed at 275 basis points over Libor plus fees. This time, an 18-month deal of at least $75m is expected at some 225 points over.

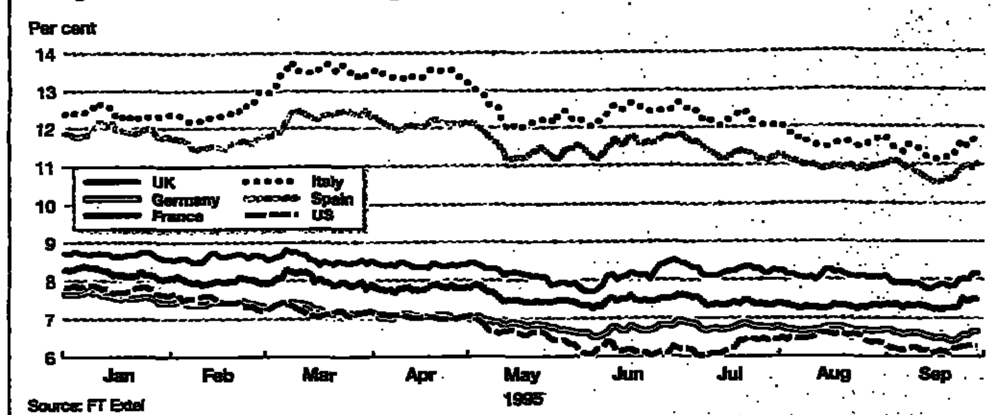
Richard Lapper

TOP TEN PROJECT FINANCINGS UNDERWRITTEN IN 1995

Name	Type	Country	Amount in $
Qatargas	LNG	Qatar	1.95bn
Paiton 1	power	Indonesia	1.95bn
Cuisiana	pipeline	Colombia	1.4bn
Birecik	power	Turkey	1.3bn
OPI	telecoms	Italy	1bn
Train G	LNG	Indonesia	1bn
Sual	power	Philippines	928m
Midal Stegal	pipeline	Germany	900m
Tanjong Jati B	power	Indonesia	800m
Route 3	road	Hong Kong	650m

Source: IFR Project Finance International

10-year benchmark bond yields



Source: FT Extel

INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	5.25	0.50	3.50	6.15[1]	9.00	6.75[2]
Overnight	6.31	0.44	4.00	5.50	10.18	6.63
Three month	5.42	0.45	3.93	6.25	10.42	6.69
One year	5.67	0.56	3.97	6.12	10.68	6.75
Five year	6.03	1.59	5.49	6.69	11.52	7.60
Ten year	6.21	2.89	6.62	7.78	11.88	8.12

(1) France-Repo rate. (2) UK-Base rate. Source: Reuters.

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	112-31	114-11	+1-12	114-15	112-20	374,649	317,124
Mar	112-18	113-31	+1-13	114-02	112-08	3,847	11,764
Jun	113-08	113-16	+1-13	113-18	113-08	1,020	2,201

International bonds

D-Mark deals climb the league tables

The eurobond market has had another buoyant quarter, and the volume of bonds issued so far this year significantly exceeds that during the same time last year.

The first nine months saw some $343bn of new eurobonds, compared with $321bn during the same period last year, according to IFR Securities data.

D-Mark issuance has increased more than three-fold compared with 1994, driven in part by strong arbitrage opportunities in the five-year sector – "the only swap game in town" according to one dealer. Moreover, safe-haven buying of D-Mark bonds has increased amid continuing nervousness over prospects for European Monetary Union. "There's a strong bid for D-Marks, especially out of Switzerland," said one dealer.

A total of 256 D-Mark issues worth $76.2bn were launched in the first nine months of the year, compared with 95 deals totalling $23.4bn during the same period last year.

This has helped German banks climb the league tables with alacrity. Deutsche Morgan Grenfell now stands in sixth place, from 11th at the end of last year; Dresdner Bank has climbed to 18th from 19th, and Commerzbank is at 15th, up from 25th at end-1994.

However, some say the D-Mark numbers have been distorted by the deluge of *Pfandbriefe* – German mortgage bonds which used to be sold domestically but have been increasingly targeted at international investors. More than DM20bn of *Pfandbriefe* have been issued in the last three months.

"Just because they're marketing them abroad, doesn't mean international investors are piling into them – I'm sceptical about how 'international' these *Pfandbriefe* really are," said a London dealer.

Another important development has been heavy eurobond purchases from Japan, where interest rates are near record lows. Japanese retail investors, whose estimated Y20,000bn of high-yielding domestic investments mature in the second half, have been keen buyers.

To maintain their returns, Japanese investors have taken currency risks in return for higher yields in other markets or extended their credit risk by buying yen-denominated paper from lower-quality borrowers.

Thus, higher-yielding yen issues by borrowers such as Sweden, Brazil or Turkey have gone like hotcakes, as have top-quality names in US dollars, D-Marks and Australian dollars.

Daiwa Securities has been the main beneficiary of the Japanese buying spree, jumping from 10th place at the end of 1994 to fourth.

To capitalise on Japanese demand for foreign-currency bonds – especially when the yen exchange rate outlook is neutral to bearish – Italy has mandated Daiwa to lead a $2bn five-year bond issue to be launched this week.

US dollar issuance, while still in the lead, is down from last year, largely due to the lack of swap arbitrage opportunities. And the many asset-backed deals which, while dubbed "global", often end up with US investors, have distorted the league tables, some say. All this has meant mixed fortunes for some US houses.

Merrill Lynch was pushed from its long-term lead into second place by SBC Warburg, which has benefited from its strong placement capability into bond-hungry Switzerland and its heavy involvement in a wide range of currencies.

While J.P. Morgan, Morgan Stanley and Lehman Brothers have held their positions around the lower top 10, Goldman Sachs, the lead in 1993 and fourth in 1994, has slipped to 14th, while Salomon Brothers has fallen from 14th in 1994 to 23rd.

Conner Middelmann

TOP INTERNATIONAL BOND LEAD MANAGERS

	First nine months of 1995				First nine months of 1994			
Manager	$bn	Rank	%	Issues	$bn	Rank	%	Issues
SBC Warburg	21.42	1	6.24	124	19.05	3	5.9	130
Merrill Lynch	19.94	2	5.81	137	28.98	1	9.0	139
CS/CS First Boston	18.95	3	5.52	118	23.26	2	7.2	118
Daiwa Securities	16.09	4	4.69	92	9.77	11	3.0	71
Nomura	15.83	5	4.61	127	14.93	5	4.7	127
Deutsche MG	15.46	6	4.51	63	10.30	9	3.2	54
Morgan Stanley	14.96	7	4.36	91	11.04	8	3.4	70
JP Morgan	14.17	8	4.13	85	10.29	10	3.2	53
Lehman Brothers	13.15	9	3.83	56	13.47	6	4.2	65
UBS	11.83	10	3.45	82	13.33	7	4.2	54
Industry totals	343.07		100.0	2296	321.12		100.0	2313

Full credit to book-runner (including equity-related)
Source: IFR Securities Data (London)

INTERNATIONAL BOND ISSUES BY CURRENCY

1995* Rank	Currency	Total raised ($bn)	No. of issues	1994* Rank	Total raised ($bn)	No. of issues
1	US$	98.79	532	1	119.66	588
2	D-Mark	76.20	256	4	23.39	95
3	Yen	56.91	648	2	50.29	477
4	SFr	23.52	216	6	16.85	266
5	Sterling	16.10	72	3	26.23	118
6	Guilders	11.69	65	9	9.64	60
7	FFr	11.49	38	5	22.12	78
8	LFr	11.46	164	10	7.94	220
9	Lire	9.52	82	7	14.19	124
10	Ecu	8.26	26	11	6.37	27

*First nine months (including equity-related)
Source: IFR Securities Data (London)

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book runner
US DOLLARS							
Sandoz Capital BVI(a)§	750	Oct.2002	2.00‡	81.17	-	-	CS First Boston
Westpac Banking Corp.‡	350	Oct.1997	(a.s)	99.943R	-	-	Morgan Stanley Intl.
Sudwest. LB Cap.Mkts.	250	Oct.1998	6.00	99.859R	6.128	+8(5⅞%-98)	IBJ International
Abbey Natl.Treasury Services	200	Oct.1997	6.00	99.805R	6.107	+8(IM 2yr)	IBJ International
Dt-Sudamerikanische Bank‡	50	Oct.2005	(h)	99.80	-	-	Dresdner Bank
D-MARKS							
DSL Bank(a)	250	Dec.1999	5.50	100.00R	-	+14(7%-99)	BZW(Deutschland)
Japan Fin.Corp.for Muni.Ents.	200	Oct.2005	6.875	99.775R	5.907	+31(6⅞%-05)	IBJ (Deutschland)
Kingdom of Denmark★	200	Oct.2000	zero	75.80	5.686	-	Daiwa Europe(Deutsch.)
Kingdom of Sweden(j)	300	Sep.2000	6.00	100.362	5.910	+37(5⅞%-00)	Nomura Bank(Deutsch.)
YEN							
BNP(b)★	10bn	Oct.1999	5.50	100.00	-	-	UBS
SNCF(m)★	20bn	Oct.2015	5.61	100.35	-	-	Yamaichi Intl.(Europe)
Asfinag(o)★	20bn	Oct.2015	(o)	100.00	-	-	IBJ International
STERLING							
Saner 2(n)‡	40	Jan.2003	(n1)	100.00	-	-	Citibank International
GUILDERS							
Akzo Nobel	500	Oct.2005	7.00	99.29R	7.102	+50(7%-05)	Rabobank Nederland
FRENCH FRANCS							
Merrill Lynch & Co.‡	900	Oct.1997	(f)	100.037R	-	-	Merrill Lynch Finance
LUXEMBOURG FRANCS							
Rabobank Nederland(l)	2bn	Dec.2000	6.125	102.25	5.60	-	BGL
Cedebank Luxembourg(l)	2bn	Dec.1999	6.00	102.50	5.30	-	BCEE
Eurofima	3bn	Nov.2005	7.00	102.50	6.650	-	Crédit Européen
ITALIAN LIRE							
Republic of Argentina(k)	150bn	Oct.1997	13.45	99.20R	13.93	-	BCI
SWISS FRANCS							
Nichiei Corp.(a)(g)★	100	Oct.1999	0.875	100.00	-	-	Credit Suisse
European Investment Bank(c)	200	Oct.2007	5.00	104.825	4.493	-	Credit Suisse
Sandoz Capital BVI(g)§	750	Oct.2002	1.25	100.00	-	-	Credit Suisse
Crédit Local de France(l)	150	Dec.2000	4.00	102.80	-	-	SBC Warburg
KfW International Finance	100	Nov.2005	4.625	103.00	4.251	-	UBS
De NIB	150	Nov.1998	3.75	103.05	2.678	-	UBS
AUSTRALIAN DOLLARS							
Abbey Natl. Funding (Jersey)	200	Oct.1998	7.875	101.255	7.393	-	BZW
Swedish Export Credit(p)★	400	Oct.1998	5.00‡	94.03	-	-	Yamaichi Intl.(Europe)
Western Australian Treasury★	100	Oct.1998	5.00‡	94.57	7.039	-	IBJ International
DANISH KRONER							
Banque Nationale de Paris	400	Dec.2000	7.50	102.40	6.92	-	Bank Brussels Lambert
DSL Bank	400	Nov.2001	7.625	102.129	7.166	-	Kreditbank
SOUTH AFRICAN RAND							
EBRD	250	Oct.1998	14.75	100.00R	14.75	-	JP Morgan Securities
Kingdom of Sweden	200	Oct.1998	15.00	100.00R	15.00	-	Merrill Lynch Intl.
WestLB Finance Curaçao	200	Oct.1998	15.00	100.375R	14.84	-	West Merchant Bank

Final terms, non-callable unless stated. Yield spread (over relevant govt bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. ✦With equity warrants. ★Unlisted. [illegible]Semi-annual coupon and yield. R: fixed re-offer price. a) Denom: SFr50,000 +50 wrts. Ex price: Y468. FX: 87.69Y/SFr. Refixing clause effective Nov.96 & 97, max 20%. b) Redemption in $, coupons in Yen. c) SFr300m launched 14/9/95 increased to SFr500m. d) Conv into reg shrs at ratio: 8.15 shrs/ bond. e) 3-mth Libor flat. f) 3-mth Pibor +15bp. g) Conv into reg shrs at SFr1,040. Puttable on 23/10/00 at 106½%. h) 6-mth Libor +30bp. i) Over interpolated yield. j) Fungible with DM1bn. Plus 30 days accrued. k) Fungible with L300bn. Plus 2 days accrued. l) Long 1st coupon. m) Coupons in A$. n) Legal maturity: Oct.22. Av life: 4.2 yrs. Callable in Jan.03 at par. n1) 3-mth Libor +22½bp to Jan.03 and +50bp thereafter. n2) Class B of £10m was privately placed. o) 2 tranches of Y10bn. Trch A pays 5.76% in A$ or 5.31% in DM at issuers option. Trch B pays 5.70% in A$ or 5.31% in DM at issuers option. p) Short 1st coupon. Note: Yields are calculated on ISMA basis.

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

YESTERDAY
Airtours Conv Pf 3.1875p
Allied Domecq 9¾% Db '19 £4.875
Do 5¼% Un Ln £2.625
Do 5¾% Un Ln £2.875
Do 6¼% Un Ln £3.125
Do 7½% Un Ln £3.75
Do 7¾% Un Ln £3.875
Alvis 5.5% Conv Cm Non Vtg Rd Pf 2.75
Asda Prop 10⅜% 1st Mort Db '11 £5.15625
Baldwin 7% (4.9% net) Cm Pf 2.45p
BET 5% Pp Db £2.50
Bristol Water 11.2% Rd Db '05/09 £5.60
Do 11¾% Ed Db '04 £5.875
Do 12½% Rd Db '04 £6.25
Brit Land 8.625% gross Conv Rd Pf '11 £34.5945
Britton Cm Conv Pf 2.25p
Brixton Estate 10⅝% 1st Mort Db '12 £5.3125
Cape 8.4% Conv Rd Pf 4.2p
Carlton Comms Conv Pf 2.75p
Caverdale 0.12p
Chesterfield Props 5.25% (net) Conv Cm Pf 2.625p
Coastal $0.10
Crest Nicholson 5½% Conv Cm Pf 2.75p
Essex & Suffolk Water 9⅞% Rd Db '97/99 £4.9375
Do 11.2% Rd Db '05/09 £5.60
Do 11.5% Rd Db '95/97 £5.75
Do 11¾% Rd Db '02/04 £5.875
First Chicago $0.60
First Choice Holidays Conv Rd Pf 4.875p
Fiscal Props 7½% Conv Un Ln '20 £3.75
Fleming Cont Euro Inv Tst 5% (3.5% net) Cm Pf 1.75p
Fleming Far Eastern Inv Tst 4½% (3.15% net) Cm Pf 1.575p
Gen Cons Inv Tst 5½% (3.85% net) Cm Pf £1.925
Glaxo 6¾% Un Ln '85/95 1.6875p
Grand Met. 4¾% (3.325% net) Cm Pf 1.6625p
GTE $0.47
Hull 2½% Rd (in or after 1838) £1.25
Do 3½% (2nd Issue) £1.75
Illingworth, Morris 6½% (4.55% net) Cm Pf 2.275p
Do 6½% (4.55% net) 2nd Cm Pf 2.275p
Johnson Matthey 5% (3.5% net) Cm Pf 1.75p
Leeds (City of) 13½% Rd '06 £6.75
Liverpool 3% Rd £1.50
Do 3½% £0.875
London 3% '07 £1.50
MEPC 10½% Un Ln '32 £5.25
Mercury Keystone Inv Tst 7¾% Db '20 £3.875
Do 11⅜% Db '01/15 £5.6875
Met Water Board Lambeth 3% Rd Db £1.50
Do London Bridge Anns £1.25
Do Met Water 3% (A) '63/03 £1.50
Mid Kent Hldgs 10% Rd Pf '97 5p
Mid Sussex Water 10% Rd Db '13/17 £5.0
Do 12% Rd Db '10 £6.0
Morgan Crucible 3.85% Cm 1st Pf 1.925p
Do 3.5% Cm 2nd Pf 1.75p
Occidental Petroleum $0.25
Queens Moat Houses 10¼% 1st Mort Db '20 £5.125
Port Lon Authority 3½% '49/99 £1.75
Prowting 8.8% Cm Rd Pf '02 4.4p
REA Fltg Rate Un Ln '95/98 3.875p
Reading 3½% (1978 0r after) £1.75
Republic New York $0.36
Ronson 0.25p
Sara Lee UK 9.43% Bd '04 £23575.0
SEP Intl 0.6p
Sphere Inv Tst 5% (3.5% net) Cm Pf 1.75p
Taylor Nelson AGB 0.35p
Taylor Woodrow 9½% 1st Mort Db '14 £4.75
Tops Estates 7½% Conv Un Ln '20 £3.75
Treasury 2½% £1.25
Whitbread 5½% (3.85% net) 3rd Cm Pf 1.925p
Do 5¾% Irred Un Ln £2.875
Wigan 3% Rd £1.50
Witan Inv 8½% Db '16 £4.25
Woolcombers 7½% (5.25% net) Cm Pf 2.625p
Do 6% (4.2% net) Cm 2nd Pf 2.1p
Xerox $0.75

■ TODAY
Amberley 1p
Angerstein Underwriting Tst 2.25p
Anglian Water 18p
Do 5⅛% IL Ln '08 £3.237
Asda 1.59p
Austin Reed 8% (5.6% net) Cm Pf 2.8p
Ayreshire Metal Products 2p
BAA 11¾% Bd '16 £587.50
BEALE 2.2p
BI Grp 3.1p
BLP Grp 1.1p
BOC Grp 12¼% Un Ln '12/17 £6.125
BT Finance 7⅝% Bd '96 $381.25
BWD Secs 1.7p
Baxter Intl $0.2825
Beales Hunter 7.45p
Black Arrow 2.1p
Boustead 0.65p
Bowater $0.15
Brewin Dolphin 2p
Bristol Water 24.5p
Do Non Vtg 24.5p
Do 6.75% Conv Rd Pf '98 3.375p
Bristol Water 8¾% Cm Irred Pf 4.375p
Bristol & West Bldg Scty 10⅞% Sb Bd 2000 £1087.50
Brit Telecom 12¼% Bd '03 £306.25
Do 12¼% Bd '06 £306.25
Broadcastle 0.6p
CRH Capital 5¾% Conv Cap Bd '05 $143.75
Caffyns 6½% (4.55% net) Cm 1st Pf 2.275p
Do 10% Cm Pf 5p
Clarke (T) 1.26p
Cook (William) 5.75p
Cooper (F) Conv Rd Cm Partg Pf 3.25p
Courtaulds Textiles 5.2p
Craig & Rose 5% (3.5% net) Cm Pf 1.75p
Cray Electronics 1.5p
Crest Nicholson 0.6p
Crest Packaging 2.75p
Daejan 20p
Dai-Ichi Kangyo Bank 3⅞% Conv Bd '04 $96.875
Danka Business 6.75% Conv Sb Nts '02 $3731.25
Dixons 5.45p
Druck 9p
Drummond 0.75p
Dyson (J&J) 2.5p
Do 'A' Non vtg 2.5p
Eastern 20.05p
East Midlands Elect 20.4p
Eng China Clays 6.5% Conv Bd '03 £65.0
Eurodis Electron 7.5% Conv Rd Pf 3.75p
Export-Import Bank Japan 4⅜% Bd '03 Y43750.0
FKI 2.6p
Finland (Rep of) 10⅜% Bd '98 £103.75
Fleming High Inc Inv Tst 1.15p
Fletcher King 0.5p
French 3% Rentes FFr0.75
Fujitsu 3% Conv Bd '99 $75.0
Do 5½% Conv Bd '96 $27.50
Gen Accident 7⅞% Cm Irred Pf 3.9375p
Gen Electric 8.42p
Gibbon 4p
Gibbs Mew 5.5p
Granada 3.85p
Grand Metropolitan 5.5p
Greece 4% Rentes 1889 20p
Do 4% (now 2%) Rentes 1889
Stg Funding Bd '65 50p
Do 4% (now 2%) Loan 1910 19.85p
Do 4% (now 2%) Loan 1910 Stg Funding Bd '65 50p
Greycoat 9.5% Bd '03 £475.0
Do Stppd Cpn Disc 1st Mort Nts Apl '02 £15625.0
Hadleigh Inds 2p
Hambros 7.5% Cm Conv Rd Pf 3.75p
Hamlet 4.2p
Hampson Inds 1.65p
Do Conv Rd Pf '91/03 3.25p
Hanson 3p
Hewetson 1.75p
Hiscox Dedicated Ins 1p
Hiscox Select Ins Fd 1.2p
Hokuriku Elect Power 6⅛% Nts '97 $306.25
Holiday Chemical 2p
Howden 1.81p
Hydro-Quebec FRN Ser IJ Oct '05 $156.41
INVESCO 1.75p
Japan Devl Bank 5% Bd '99 Y50000.0
Kalon 1.6p
Kewill Systems 4p
Law Debenture 7.5p
Leigh Interests 5.37p
Leo 1 Cl A2 Mort Bkd FRN '35 £1891.29
Leo 2 Cl A1 Mort Bkd FRN '32 £134.47
Do Cl A2 Mort Bkd FRN '32 £179.78
Leslie Wise 1.75p
Lonrho 1.25p
Low & Bonar 3.6p
Lowndes Lambert 5.5p
MITIE 1.7p
Malaya 0.33p
Marshalls 3.5p
Do Conv Cm Pf 3.25p
Menvier-Swain 3.5p
Midlands Elect 20.45p
Misys 5.82p
Mitsubishi Bank 3½% Conv Bd '04 £175.0
Mitsubishi Elect 2⅞% Conv Bd 2000 $71.875
Do 5¼% Conv Bd '98 $131.25
Do 5¾% Conv Bd '96 $143.75
Morris Ashby 4.55p
Morton Sundour 3.5%
1st Cm Pf 1.75p
NEC 2⅞% Conv Bd 2000 $71.875
Do 5¼% Conv Bd '97 $131.25
Do 5¾% Conv Bd '96 £28.75
Nissan Motor 6% Conv Bd '96 £30.0
Nobo 4p
Northamber 1.2p
Northern Ireland Elect 9.5p
Northumbrian Water 18.8p
Orbis 0.4p
P&P 1.15p
PCO Fin 8% Conv Cap Bd '05 £200.0
P & O 5% (3.5% net) Cm Prefd £1.75
Photobition 3.6p
Precoat Intl 0.25p
Prudential Funding 10% Nts Oct 2 '96 C$100.0
REA Hldgs 4p
REXAM 7.75% Conv Pf 3.875p
Ranson (William) 1.32p
Real Time Control 4.5p
Rio de Janeiro 5% Gold Bd 16.25p
St. Andrew Tst 2.95p
Sabre Lease Mgnt 7.25% Mezz Secd Nts '01 £181.25
Do 5.8% Snr Secd Nts '01 £1450.0
Sainsbury (J) 9⅛% Nts '96 $456.25
Schlumberger $0.375
Scottish Hydro-Elect 9.67p
Scottish Power 9.1p
Seacon 0.97p
Sears Roebuck $0.23
Severn Trent 16.8p
Siebe 8.07p
Skandia Cap AB 11% Nts '96 £110.0
Smith (David S) 8.75p
Southend Property 1.68p
Do Prefd 3.5p
Southern Electric 20.2p
Southern Water 17.45p
South Western Elect 20.3p
Spain 4% (Sealed Bd) £2.0
State Elect Comm Victoria 7⅞% Nts '02 C$78.75
Stavert Zigomala 9.4145p
Stylo Lim Vtg Ord 7p
Sumit 3.2p
Sun Alliance 7⅜% Cm Irred Pf Shs 3.6875p
TSB 4.111p
Thwaites (D) 5% (3.5% net) 1st Cm Pf 17.5p
Tinsley (E) 3.65p
Trafalgar House 10⅞% Bd '14 £1087.50
Transport Devl 3p
Treforest Silk 6% (4.2% net) Non-Cm Pf 2.1p
Triplex Lloyd 4.5p
UK Land 1p
Unitech 4.98p
Vardy (Reg) 3.75p
Volex 12.3p
Wagon Industrial 12.1p
Welsh Water 24.6p
Wessex Water 8.8p
Willis Corroon 1.65p
Wilshaw 0.5p
Wintrust 7.7p
Yorkshire Water 19.3p

■ TOMORROW
AIM Grp 3p
Ashtead 5.8p
Bank Montreal 10⅜% Dep Nts '96 C$103.75
Barbour Index 6.15p
Beauford 0.2p
Bogod 0.25p
Do 'A' Res Vtg 0.5p
Budgens 0.8p
Capital Shopping Centres 3.5p
Central Motor Auctions 0.5p
European Motor 3p
Farepak 5.55p
Gen Cons Inv Tst Inc Shs 3.9p
Govett Emrg Mkts Inv Tst 0.3p
Hawtin 0.4p
Hazlewood Foods 4.3p
Johnson Grp Cleaners 2.8p
Kleinwort High Inc Tst 2p
Matthew Clark 13p
McDonnell Info Systems 1.2p
Murray Split Cap Tst Inc Shs 2.65p
Do UNITS 26.5p
Oxford Instruments 4p
Park Food 1.88p
Portmeirion Potteries 3p
Psion 1.5p
Rand Mines R0.82
Reliance Security 4.4p
Reylon 2.2p
Rexmore 2.1p
Scruttons 6p
Sutcliffe Speakman 0.25p
Transatlantic 6.6p
Vibroplant 2.65p
Westminster Health Care 3.3p
Worthington 1.5p
Yorkshire Elect 21.42p

■ WEDNESDAY OCTOBER 4
Burford 0.85p
Burtonwood Brew 7% (4.9% net) Cm Pf 2.45p
China Inv Tst 0.3p
Cook (DC) 1.05p
Fairway 1.3p
Fleming Enterprise Inv Tst 3.65p
Liberty Life Assoc Africa R1.16
ML Hldgs 0.95p
NFC Var Vtg Ord 1.5p
Novo 0.8p
Pearson Sterling Two 9½% Bd '04 £475.0
Peel 3.8p
Premark Intl $0.27
Reed Elsevier 7½% Bd '99 $75.0
Syltone 3.49p
Tarmac Fin (Jersey) 9½% Conv Cap Bd '06 £47.50
Zetters 5p

■ THURSDAY OCTOBER 5
Annuities 2½% £0.625
Do 2¾% £0.6875
Barclays 9.5p
Bradford Prop Tst 10.5% Cm Pf 5.25p
Braime (TF & JH) 2.9p
Do 'A' Non Vtg 2.9p
Britannic Assurance 4.6p
Browning-Ferris Inds $0.17
CIA Grp 0.54p
CRH 7% (5.25% net) Cm Pf IR2.695
Centex $0.05
Cleveland Place 3¾% Irred Db £1.875
Do 4¼% Irred Db £2.125
Consolidated 2½% £0.625
Dudley Jenkins 2.315p
Edinburgh Inv Tst 5¾% Db '98 £2.875
First Spanish Inv Tst 0.25p
Gencor R0.14
McKay Secs 3.1p
Met Water Board Grand Junction 3% Db £1.50
Do West Middlesex Water 3% Db £1.50
Moorfield Estates 0.5p
Safeland 1.14p
Scottish Amer Inv 1.24p
Treasury 8% Loan '02/06 £4.0
Do 3% £1.50
WMX Technologies $0.15
Ward 0.5p
Williamson Tea 15p

■ FRIDAY OCTOBER 6
ABN Amro Fl1.60
Admiral 2.9
Alliance Tst 16p
Do 4% (2.8% net) Cm Pf £1.40
Do 4¼% (2.975% net) Cm Pf £1.4875
Do 5% (3.5% net) Cm Pf £1.75
Do 4½% Db £2.25
Avesco 1p
Banks (Sidney C) 6.5p
Bellway 9.5% Rd pf '14 4.75p
Bespak 6p
Blacks Leisure 1.5p
Chemical Banking Snr FRN 2000 $157.17
Chieftain 0.5p
City Merchants High Yield Tst 2.25p
Colefax & Fowler 0.9p
Dhana Siam Fin & Secs Pacific 4% Sb Conv Bd '03 $40.0
Dunedin Inc Gwth Inv Tst 9.1p
Eurotherm 3p
First Technology 4.2p
Foreign & Colonial Inv Tst 0.63p
Foster's Brewing A$0.035
Greenalls 8% Irred Un Ln £4.0
Do 9⅛% Irred Un Ln £4.5625
Grosvenor Inns 2.75p
Irish Permanent FRN '98 £180.85
Kleinwort Overseas Inv Tst 1.6p
Lloyds Abbey Life 7.3p
MFI Furniture 2.75p
McMullen 6½% Cm Pf 3.25p
Do 10.5% Cm Pf 5.25p
Metal Bulletin 4.8p
Middle Wits (Western Areas) R0.088
Nippon Credit Bank Fxd/FRN Oct 6 '04 $3558.33
Pifco 2.85p
Do 'A' Lim Vtg Ord 2.85p
Regent Inns 4.75p
River & Mercantile Tst Inc Shs 2.25p
Ryland 2.35p
Shorco 2p
Stirling 1.45p
THORN EMI 26.75p
TR Smlr Cos Inv Tst 2.4p
Treatt 1.8p
UK Rents (No 1) 9.1% Bd '25 £91.0
Warner Estates 3.85p
Westpac Banking FRN '95 $33.55
Whitbread 9% Un Ln '97/01 £4.50
Widney 0.075p
Williams 5.5p
Yorkshire Chemicals 2.75p

■ SATURDAY OCTOBER 7
Brad & Bingley Bldg Scty 13% Perm Int Bearing Shs £650.0
Brit Assets Tst 1.095p
Scottish Natl Tst Inc Shs 1.85p

UK COMPANIES

■ TODAY
COMPANY MEETINGS:
Ashtead, 30, Furnival Street, E.C., 12.00
Farepak, The Butchers' Hall, 87, Bartholomew Close, E.C., 12.00
IAF Group, 12, Curzon Street, Mayfair, W., 10.00
Victoria Carpet, Green Street, Kidderminster, 2.30
BOARD MEETINGS:
Finals:
Betacom
DCS Grp
Groupe Chez Gerard
Melrose Energy
Ricardo
Interims:
Ash & Lacy
Brightstone
British Dredging
Chiroscience
Green Acre
Moss Bros
Oasis Stores
Stylo

■ TOMORROW
COMPANY MEETINGS:
BBB Design, 25, Luke Street, E.C., 11.00
Fleming Enterprise Investment Trust, 25, Copthall Avenue, E.C., 12.00
Saville Gordon (J), Birmingham Chamber of Industry & Commerce, 75, Harborne Road, Birmingham, 11.30
BOARD MEETINGS:
Finals:
Halstead (James)
Manchester United
Interims:
Arcadian Intl
Biocompatibles
Bloomsbury Publishing
Ibstock
Middlesex
QS Hldgs
Second Mkt Inv Tst
Silentnight

■ WEDNESDAY OCTOBER 4
COMPANY MEETINGS:
Abtrust Preferred Income Investment, 99, Charterhouse Street, E.C., 12.30
Dunton, Exchange House, Primrose Street, Broadgate, E.C., 10.00
First Spanish Investment Trust, 48, Chiswell Street, E.C., 12.00
Johnson Fry European Utilities Trust, 14, Melville Street, Edinburgh, 12.00
Peel, St James' Club, Manchester, 12.00
Platignum, 20, Greenfield, Royston, Herts, 10.15
BOARD MEETINGS:
Finals:
Burn Stewart Distillers
Magnum Power
Interims:
Abtrust Euro Index
Austin Reed
Bank of Scotland
Blenheim
Global
Grampian
Hewden Stewart
Hunting
Intl Inv Tst of Jersey
Neill Clerk
Nth Atlantic Smaller
REA Hldgs
United Inds

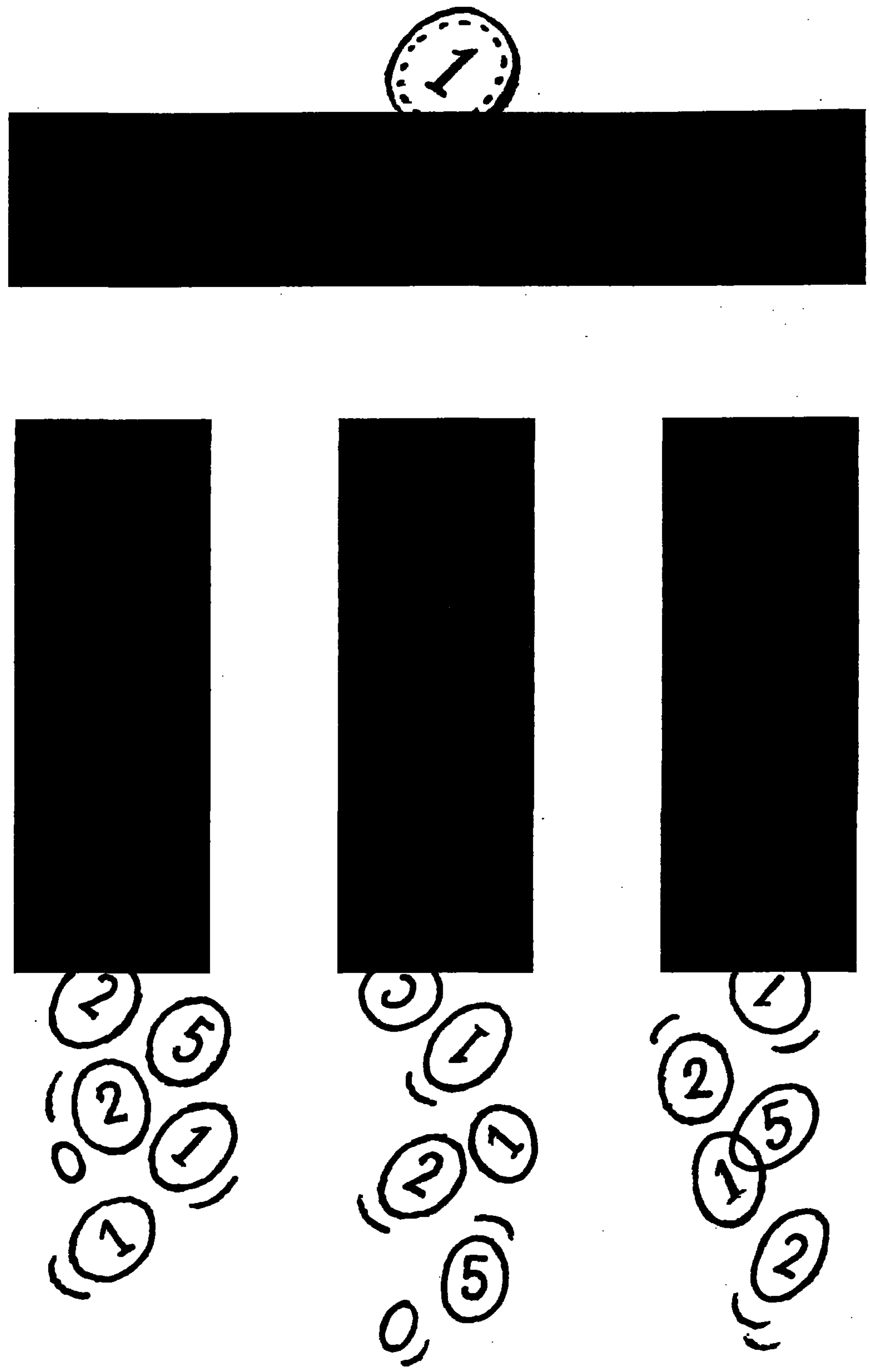
■ THURSDAY OCTOBER 5
COMPANY MEETINGS:
Ellis & Everard, Grocers Hall, Princess Street, E.C., 12.00
New London, The Skinners Hall, 8, Dowgate Hill, E.C., 11.30
Pifco, Stanneylands Hotel, Stanneylands Road, Wilmslow, Cheshire, 9.30
Regent Inns, Princess Louise Public House, 208, High Holborn, E.C., 3.30
Verity, 12, Appold Street, E.C., 11.00
BOARD MEETINGS:
Finals:
Brunel
Galliford
McBride
Interims:
Barry Wehmiller Intl
Denistron Intl
Hopkinsons
Hughes (TJ)
Meggitt
Schroder Split Fd
Wensum Clothing

■ FRIDAY OCTOBER 6
COMPANY MEETINGS:
PSIT, The Butchers' Hall, 87, Bartholomew Close, E.C., 12.00
BOARD MEETINGS:
Finals:
Waterman Partnership
Interims:
BMSS
Chepstow Racecourse
Clarkson (Horace)
Eurotunnel
Martin Intl
Slingsby (HC)

Company meetings are annual general meetings unless otherwise stated.

Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

So who insures the insurers?



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ALBANIA

Making up for lost time

The poorest country in Europe is opening for business, writes Kevin Done


Off limits for decades, a deserted Albanian submarine base is one of several locations expected to become a magnet for tourism development. The country boasts spectacular mountain *and coastal scenery and a wealth of unexcavated archaeological sites. Long isolated, the country offers some of the most attractive opportunities for tourism development* in the Mediterranean with 450kms of coastline along the Adriatic and Ionian Seas. Growth will be delayed by problems of land ownership and by poor infrastructure with inadequate roads, water and power supplies, and telecommunications. But the tourism sector is set to become one of the country's most significant long-term sources of foreign currency earnings. Picture: Kevin Done

There is now a digital clock beside the mosque in the main square in Tirana, the Albanian capital. An embryonic funfair has started up beside the empty plinth of the old Enver Hoxha statue toppled in 1991. The base of the former Lenin statue is lost beneath the flimsy foundations of the Las Vegas pizza restaurant.

In recent weeks the first privately-owned business centre has opened in Tirana. All the offices are let and a second one is planned. In a country where private cars were banned until 1990 and the main traffic noise was the hiss of bicycle tyres, the streets of the capital are clogged at rush hour, as cars and trucks vie for space with horse-drawn carts and bicycles.

Up to 17 flights a day are landing on the patched runway and cratered taxiways of Tirana's antiquated Rinas airport compared to two, or less, five years ago. At the main port of Durres on Albania's Adriatic coast, an average of six ferries a day arrive, compared with three a month five *years ago*.

Albania, which suffered one of the most centralised and repressive regimes in the world and was virtually isolated from the rest of Europe *from* the mid-1940s until late 1990, is opening for business.

It is still the poorest country in Europe. With a GDP per cap*ita of less than* $600, *it is on a* par with some of the better African developing countries. Wages in the public sector average only $65 to $70 a month. Around half of the country's GDP still comes from agriculture – compared with 3 per cent in western Europe – and more than half Albania's population still lives in rural areas.

Tower cranes work on the site of a new five-star hotel in Tirana, but around the edges of the city shanty towns are spreading to cope with the arrival of the rural poor. In the countryside, particularly in the south and east, *emigration has* left whole villages bereft of working age men.

"Nearly 20 per cent of the Albanian population is living *from hand to mouth*," says a recent report from the United Nations Development Programme.

In Albania the demise of *communism occurred later* and was more disorderly than in other central and eastern European countries. By early 1992 GDP, already the lowest in Europe, *had fallen by more* than 50 per cent from the 1989 peak, agricultural production and much of industry had collapsed, and the country was on the *brink of hyperinflation*.

From this low base much has been achieved in the past three-and-a-half years, as Albania has set out on the long, *testing transition to a* pluralist democracy and an open market economy. The changes are being wrought by the inexperienced leaders of the *Democratic Party, which* was only formed at the end of 1990 but which won more than 62 per cent of the votes in the *landmark election* of March 1992 *to end 48 years of communist* rule.

With massive financial and technical aid from the World Bank, the International Mone*tary Fund (IMF) and the* European Union, and from bilateral donors led by Italy and the US, the government has succeeded in stabilising the economy.

Albania has achieved one of the highest growth rates of any of the transition economies in East Europe, with GDP expanding on average by around 9 per cent a year for the three years from 1993 to 1995. The budget deficit has fallen sharply, the country has exceeded all the targets set by the IMF, the currency has been stable, and the rate of inflation during the late summer has been running at just over 2 per cent year-on-year.

In *a key move during* the summer Albania also reached agreement with 42 western banks on the complex restructuring of its $500m of commer*cial debt, on which it defaulted* in 1991, opening the way to foreign banks again providing trade and project finance.

Growth has been led by pri*vate activity in agriculture*, construction and other service sectors.

The economy has been brought back from the edge of *the abyss, but it remains fragile* and vulnerable. The country is still only kept afloat by large-scale foreign aid and the remittances of Albanians working abroad, which allow the country to live well beyond its means.

The nature of the international aid effort is changing rapidly, as Albania puts the crisis years behind it and begins to invest to repair and modernise its antiquated infrastructure.

More than $2.2bn of foreign aid has been committed to Albania since 1991, of which two thirds will have been disbursed by the end of this year. *In 1991 and 1992 emergency* food and humanitarian aid accounted for around two thirds of the total but has fallen to virtually zero in 1995. *By contrast three quarters of* the $368m to be disbursed this year will be devoted to infrastructure development.

The establishment of adequate services from roads, airports, water and power supplies to banking and telecommunications, is one of the biggest challenges facing the country, if it is to be able to develop fully its most promising sectors such as agriculture, mining - in particular of chrome ore, where Albania has the only significant reserves in Europe - oil and gas, and tourism. Albania has spectacular mountains and coastal scenery and the only undeveloped *coastline in virtually the whole* of the northern Mediterranean.

The scale of the task is daunting. Water supply is only available in many towns and *cities for five to six hours a* day. The electricity distribution system is completely overloaded, leading to widespread power cuts and blackouts in *the cold winters*. The country has only around 50,000 telephones or 1.4 per 100 inhabitants compared with 57 in Italy or 49 in Greece.

To meet the challenge, the government has launched a $1.3bn three-year public investment plan, with spending focused on improving water supplies, upgrading the transport system, modernising the energy, agriculture and telecommunications sectors, and rehabilitating health and education services.

The government has been working to strict targets - as part of agreed IMF guidelines - for reducing the budget deficit, *but the Berisha administration* is now seeking some leeway to relax the tight fiscal and monetary policies pursued for the past three years.

With *next spring's general* election looming large, Prime Minister Aleksander Meksi has recently announced plans for a ten per cent rise in public sec*tor wages and for increased* public spending on infrastructure investment.

The general election will mark an important watershed *in Albania's transition* to an open market economy and could prove crucial to the pace at which reforms can be implemented. Under the forceful leadership of President Sali Berisha, the 51-year-old former cardiologist, the Democratic Party government has moved with haste to integrate Albania into Europe and Nato.

It was the first country in East Europe to apply for membership of Nato, in a recent step it has been accepted as a *member of the Council of* Europe, and it hopes to begin negotiations on an association agreement with the European Union this autumn.

Its newly won allies in the west, not least the US, are eyeing nervously the prospects of President Berisha's Democratic Party emerging much weak*ened from the approaching* election, however. The US has been strongly supportive of the Berisha administration believing that it has found in Albania *an area of relative stability* in the maelstrom of Balkan politics.

The Democratic Party government suffered a heavy setback late last year when it was surprisingly defeated in a national referendum on a new constitution opposed by the Socialist Party, the former communists.

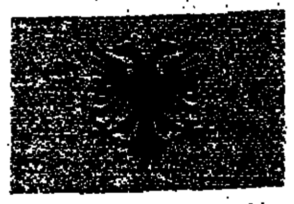
President Berisha himself has come under attack for what is regarded as his increasingly authoritarian style.

The government's human *rights record has* been undermined by the continuing imprisonment of the former prime minister Mr Fatos Nano, probably the most competent *politician in the opposition* Socialist Party. At the same time the recent dismissal of Mr Zef Brozi, chairman of the Supreme Court, following a *series of dramatic clashes with* the government, has called into question the independence of the Albanian judiciary and has led the main opposition *parties to stage a boycott of* parliament.

While the general election is due to take place next spring, the election of the president by *a vote in parliament is not due* until 1997 raising the spectre of serious tensions developing at the heart of the Albanian political system, if the ruling Dem*ocratic Party were to lose its* present overall majority.

"We are at a critical point," says one diplomatic observer, "this is a crucial election. The Democratic Party *is still* struggling to come to terms with the referendum defeat. There is a struggle between the parliament and Berisha and the courts and Berisha. These are still battles about trying to define the roles of institutions in a democratic society."

IN THIS SURVEY



Editorial production: Heather Parker

ALBANIA
Key facts and indicators

■ Population
In millions (mid-year)

1990	1991	1992	1993	1994
3.25	3.29	3.36	3.36	3.37

■ Economy

	1994
GDP ($bn)	1.8
Real GDP growth (%)	7.4
Industrial output (% pa)	-2.0
Agric. output (% pa)	*6.8*
Agriculture as % of GDP	55.5
Consumer prices (Dec yr-on-yr)	15.8
Current Acc. deficit ($m)	-146
Exports ($m)	141
Imports ($m)	601

■ Main towns

	Population
Tirana (capital)	300,000
Durres	124,900
Elbasan	101,300
Vlora	88,000
Shkodra	81,000
Fier	74,000
Berati	71,000
Korca	50,000

■ Language
The Albanian language is divided into two dialects – Gheg, north of the river Shkumbinit, and Tosk in the south. Since 1945, the official language has been based on Tosk.

■ Ethnic Mix
Albanians make up 97 per cent, *with the minorities dominated* by Greeks, at around 2 per cent of the total. Others include Macedonian, Montenegrin, Vlach, and Gypsy groups.

■ Religion
70 per cent Muslim, 20 per cent Orthodox and 10 per cent Roman Catholic.

■ Currency
Currency: Lek, made up of 100 qindars.
Equivalents September 1995: Lek 92.00 to the US$

■ Visa requirements
Visas are issued at the border to EU (except for Greeks), US and Canadian passports. Other nationalities should confirm requirements before arrival.

■ Transport
International airlines include Alitalia, Austrian, Swissair, Lufthansa, Olympic, Malev and Balkan.
Ferry services connect Durres and Vlora with Trieste, Ancona, Brindisi, Bari, Rijeka and Pula. Inside Albania, no internal air *service.*
Network of about 18,000km of roads, of which about 3,000 are paved. Private transport: advisable to hire local car and driver through travel agencies. Negligible rail network; national *bus network.*

■ Tirana hotels
Hotel Europapark 355 42 35035
Tirana International 355 42 34185
Hotel Dajti 355 42 33326

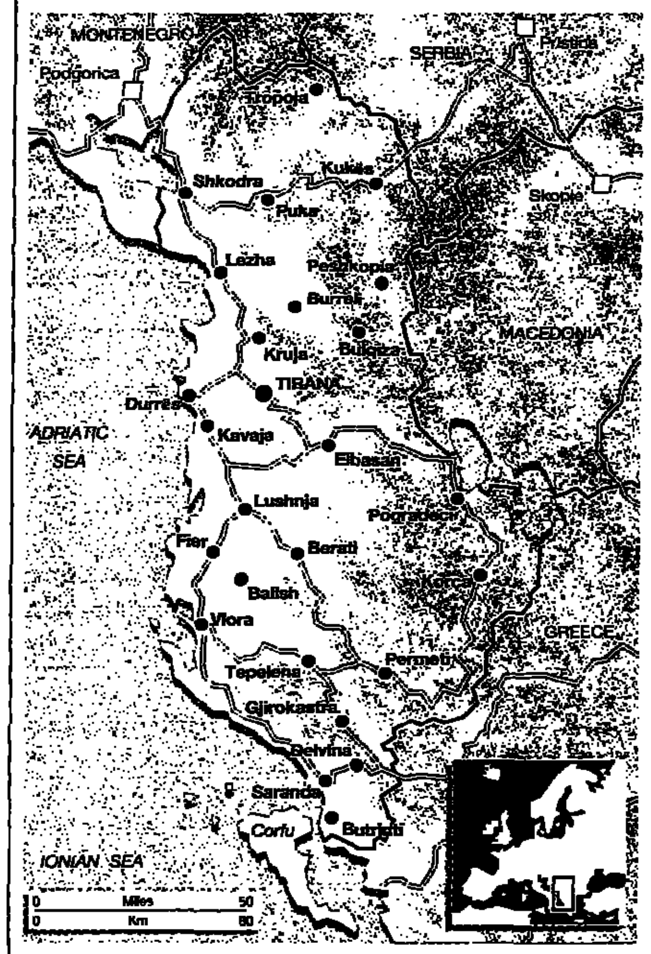
■ Time
One hour ahead of GMT in winter; two hours in summer.

■ Useful contacts
Telephone code: Albania 355, Tirana 42
All the following are in Tirana

President: Sali Berisha, tel 28491, fax 33761
Prime Minister: Aleksander *Meksi tel 34816, fax 34818*

Ministry of Agriculture and Food tel 32675, fax 27924, Minister Hasa Halili
Ministry of Energy and Mineral Resources tel 32833, fax 34052, Minister Abdyl Xhaja
Ministry of Finance tel 28405, fax 28494, Minister Dylber Vrioni
Ministry of Foreign Affairs tel 34797, fax 34793/4, Minister Alfred Sereqi
Ministry of Industry and Trade and Transport tel 32289, Minister Suzana Panariti
Ministry of Tourism and Construction tel 23477, Minister Dashamir Shehi
Department of Economic Development and Foreign Aid Co-ordination, director Edmond Leka tel 28467, fax 28363
National Agency of Privatisation director Niko Glozheni tel/fax 27937
Chamber of Commerce tel 32435 / 32154 / 32934

Compiled by FT Library
Sources: Human Development Report, Albania, UNDP; Albanian Ministry of *Finance; EIU Country Profile;* Statesman's Yearbook; The Economist Pocket Yearbook; World Reference Atlas, and others



■ Politics: As it approaches the election, the ruling party is trying to accelerate reform measures. By **Kevin Done**

Ruling party far from complacent

Some suggest it is realistic to accept there will be a coalition government

Albania's ruling Democratic Party is trying to raise the pace of domestic reform as it approaches next spring's general election with severe misgivings about its prospects.

Defeated late last year in a referendum on the constitution and beset by factional infighting, DP leaders appear privately resigned to losing substantial ground from their stunning victory in March 1992, which ended nearly 50 years of Communist rule.

A package of economic measures this autumn, including a 10 per cent increase in public sector wages and increased investment in infrastructure, is aimed at improving its electoral fortunes.

It is also seeking to accelerate the pace of privatisation in order to try to give the electorate some material benefits from the reform programme.

It has recently started the country's first voucher-based mass privatisation programme and has made bold *declarations of intent to privatise the* state-owned banks, large parts of state utilities in sectors such as telecommunications and electricity distribution, and key surviving sectors of industry such as chrome ore mining.

The Democratic Party government, its leaders drawn from the democracy movement spawned in 1990 and inevitably inexperienced in politics, has proved remarkably stable.

It won 62.1 per cent of the *votes in the general election of* March 1992, when the country was in chaos in the disorderly move from the old communist order, to capture 92 of the 140 seats in parliament. The former communist Party of *Labour, renamed as the* Socialist Party, was left floundering with 25.7 per cent of the votes and 38 seats.

In the last year the DP has begun to look increasingly vulnerable, however.

The biggest setback came late last year when President Sali Berisha suffered a heavy defeat in a national referendum on a new constitution. The government was undermined in part by opposition claims that the terms of the new constitution would greatly increase the powers of the president – such as in the appointment of judges – although the vote was also seen by many as the expression of a more general dissatisfaction with the government.

The claims that the draft constitution would concentrate power in the hands of the president are vigorously denied by President Berisha.

The referendum defeat has triggered urgent action by the DP to reorganise the party, with the leadership convinced it failed in the constitutional vote because it had not managed to galvanise the grassroots of the party.

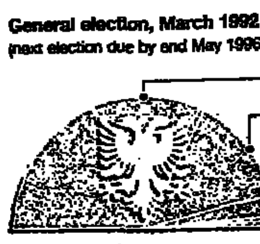
The government has recently appointed the first woman minister, an economist, Ms Suzana Panariti, as Minister of Industry, Transport and Trade. Mr Berisha says he is trying to secure a quota of 25 per cent of women as members of party councils, and as Democratic Party members of parliament.

With such a short history it is inevitable the government should be short of political experience. President Berisha is a cardiologist, while Prime Minister Aleksander Meksi is a civil engineer turned archaeologist and specialist in early Christian architecture.

Mr Dylber Vrioni, the finance minister and deputy prime *minister appointed last* December, was a mechanical engineer. Mr Pjeter Arbnori, the speaker of parliament, was a political prisoner for 28 years.

Parliament

General election, March 1992
(next election due by end May 1996)



	Number of seats	Percentage of votes
Democratic Party	92	62.1
Socialist Party	38	25.7
Social Democratic Party	7	4.4
Party of Union of Human Rights (Ethnic Greek Party)	2	2.9
Republican Party	1	3.1

(Others 1.8% of votes, no seats)

Source: Democratic Party

The Democratic Party's achievements have been impressive, given the starting point from a shattered society and an economy in collapse. It has pressed ahead with a comprehensive political and economic reform programme that has won plaudits from international observers.

President Berisha insists "a lot has been achieved since the overthrow of an Orwellian dictatorship. We have become increasingly ambitious, we have taken risks and we have succeeded in introducing democratic institutions and a market economy and in promoting civil society."

Privately, Democratic Party leaders accept that the election result of three-and-a-half years ago can scarcely be repeated. *Their ambition is to retain at least a majority,* but some in the party suggest that a more realistic goal is to remain as the biggest party, while accepting that coalition government is inevitable.

Forming a coalition could prove *difficult. Under the* demands of government and in the face of the strong, charismatic and – according to his critics – increasingly autocratic leadership of President Berisha, the party has been weakened by factional in-fighting as well as by splits to both left and right. The number of Democratic Party members of parliament has gradually been reduced from 92 to 85.

In an early clash of personalities, several leading members of the Democratic Party split away in 1993 to form the Democratic Alliance to the left of the DP. Last year two more departed to form the extreme nationalist, right-wing Democratic Right Party.

The Democratic Party's previous coalition partners, the Social Democrats (seven MPs) and the Republican Party (one MP), also split away at the end of last year in the wake of the failed referendum vote.

The political climate has become increasingly heated with the main opposition parties, led by the Socialist Party, boycotting parliament in recent weeks. They have been protesting at the handling of the judiciary and the sacking by parliament of Mr Zef Brozi, *the chairman of the Supreme* Court.

The conflict with Mr Brozi is linked with the continuing imprisonment of Mr Fatos Nano, the former Prime Minister and leader of the Socialist Party, who was imprisoned in 1993 on charges of embezzling Italian aid funds.

Mr Brozi had taken steps to review the Nano case, and his dismissal has added further fuel to opposition claims that the government is undermining the independence of the judiciary. At the same time the *imprisonment of Mr Nano,* the most effective opposition leader, is helping both to unite the Socialist party and to tarnish the Democratic Party's record on human rights.

Mr Ilir Meta, the 26-year-old vice-chairman of the Socialist Party, says the party is optimistic that it can win the next election. Its main strength has remained in the rural areas, but he claims it has begun to gain ground in the towns and cities, which are the strongholds of the DP.

The Socialists have suffered divisions over their party programme, which still claims loyalty to Marxist principles, although Mr Meta insists "*there is nothing* Marxist about the programme. It is very Social Democratic."

The argument over dropping the reference to Marx has proved damaging, but Mr Meta says the party has "stopped this debate for the moment, because it would create a lot of problems ... We must leave Marx and face Berisha."

If the Democratic Party were to lose control of parliament in the spring, it could lead to *damaging conflict between the* parliament and President Berisha. The election of the president, which is undertaken by a vote of parliament, is not due until spring 1997.

■ Foreign policy: Relations with neighbours are still highly charged, writes **Kevin Done**

Caution remains the keynote

In the cauldron of the Balkans, Albania has emerged in the past four years as an area of relative stability.

But with as many ethnic Albanians, around 3m, living directly outside its borders – in Serbia, *Montenegro, Macedonia* and Greece – as within the country itself, relations with its neighbours are highly charged.

The continuing war in former Yugoslavia and the repression of the ethnic Albanian population in neighbouring Kosovo in southern Serbia, inevitably overshadow Albania's regional security agenda. Its relations with Greece, though greatly improved this year, also remain fragile.

The nadir in relations between the two was reached last year in the wake of the alleged shooting of two Albanian conscripts by a commando group of Greek terrorists in southern Albania. In retaliation, five ethnic Greeks were imprisoned in Albania on charges of espionage and illegal possession of arms, but were later released as part of an effort by both sides to defuse tensions.

Ethnic pressures also mark Albania's relations with the former Yugoslav republic of Macedonia, where Albanians make up the biggest and most vociferous minority, accounting for around 23 per cent of that young state's 2.1m population.

While the moderate leaders of Albanian Macedonians have adhered to their policy of co-operating with the governing coalition, underlying ethnic pressures have been raised by slow progress in implementing reforms, including better educational opportunities.

To the north Albania's border resources are stretched by the attempt to police the UN trade embargo on rump Yugoslavia with claims of flourishing illegal trade in oil across the frontier.

Beyond the immediate Bal*kan region, Albania has moved* quickly under the determined leadership of President Sali Berisha to integrate itself into Europe in the wake of the collapse of communism four years ago. In the latest move it was *admitted earlier this summer into the Council of Europe.*

It is building close links with Nato, and is eager to intensify its links with the European Union, which already accounts for the lion's share of foreign trade. Negotiations could start before the end of the year on an association agreement with the EU, says Prime Minister Aleksander Meksi.

Albania is also building close political, economic and military links with the US, a relationship that has been reinforced by last month's visit by President Berisha to Washington. As a result of the meeting, the US, which already uses a base in northern Albania for unmanned reconnaissance flights over former Yugoslavia, is to equip and outfit Albania's peacekeeping contingent under Nato's Partnership for Peace programme. It will also increase military training in Albania.

Diplomatic observers warn, however, that a west preoccupied by trying to bring peace to Bosnia is in danger of underestimating the wider threats to peace in the Balkans, many of which involve the security of Albania.

The Tirana administration is credited with making a positive contribution towards keeping regional tensions under control, but President Berisha identifies two principal dangers: "If a change of international borders by force is accepted in Bosnia, there will be no peace in the region," he warns. "We are also very much concerned about the issue of Kosovo, which is the key question to the Balkan crisis. The Contact Group (the US, Russia, the UK, France and Germany) is not dealing with this very important issue in the region, they are even ignoring it. I am convinced that the Balkan conflict will be a multi-act tragedy."

In Serbia's southern province of Kosovo, around 2m people or 90 per cent of the population, are ethnic Albanian, but for several years they have been *living under virtual martial* law following the abolition in 1989 of Kosovo's autonomy by Serbian President Slobodan Milosevic. Kosovo is often cited as former Yugoslavia's next flashpoint, and fresh alarm *bells have recently been* sounded among ethnic Albanian leaders by announcements from Belgrade that 5 per cent of the Serb refugees from Krajina, the former rebel-Serb held enclave in Croatia, would be sent to Kosovo.

"Democratic and economic reforms in Albania need time, and they need political stability in Albania and stability in the region, not war," says Albanian Prime Minister Aleksander Meksi. "We have said many times that war in Kosovo *means war in all the southern* Balkan countries."

Albania is concerned that Kosovo should not be ignored in any peace settlement.

The White House said last month that US President Bill *Clinton had assured* President Berisha that "the US strongly supported autonomy for the people of Kosovo and would continue to work toward that end", but Tirana believes that such recognition is hardly matched in European capitals.

■ **Health:** Facilities are poor, and funding is inadequate. By **Jane Martinson**

More than just a vitamin shot needed

Without the influx of humanitarian aid, the worn out system would not have survived

A visit to Albania's main hospital is all it takes to show how inadequate the health ministry's $55m budget is.

In Tirana's university hospital, where most of the country's surgery takes place, the average age of the medical equipment is 25 years. It is better equipped than most, but there is no diagnostic equipment, X-ray machines are faulty and respirators archaic. Surgeons perform delicate operations in bare theatres.

Before the neurosurgery department moved to new premises, it inhabited part of the oldest section of the hospital. Three intensive care patients were squeezed into one room with a faulty door and one new respirator donated by a British charity.

The stench and filthy walls and stairs were brushed aside by surgeon Arson Seferi, as "not very serious". He is more concerned about the need to ration a faulty X-ray machine, and the shortage of vitally important surgical plasters.

The situation improved for this department, however, with a move last month. The new hospital, which cost 10m lek to complete, is near the city's general neurology hospital and offers eight intensive care beds. But the X-ray machine would still be rationed and the four-storey building has no lifts, said Dr Seferi.

The situation in Albania's health service – and its equally hard hit education service – has improved since civil unrest in 1990 and 1991 led to widespread looting and destruction. During that time 24 per cent of health centres and 65 per cent of general surgeries were destroyed or occupied by squatters, while a greater percentage of local schools were attacked. Without the influx of humanitarian aid such as drugs and medical supplies from government agencies and charities around the world, Mr Maksim Cikuli, health minister, says the "worn out" system he inherited would not have survived.

A three-year public investment programme aims to address some of the shortages in the sectors which most affect the daily lives of the electorate: $89m is to be spent on health and $94m on education between 1995 and 1997. This funding will provide all of a 1.26bn lek project to improve primary health care, and part of two projects to rehabilitate and construct new hospitals.

The proposals, which cover basic vaccination programmes to the building of new hospitals, are partly a reaction to urgent health needs and partly due to a determination to rationalise the system.

The lack of economic planning was one of the biggest defects of the old system, according to Mr Cikuli. "There was no economic logic at all," he says. The last two years have already seen many changes to that system. The number of beds has fallen from 13,400 in 1989 to 10,000 as rural hospitals have either been closed down or turned into small health centres.

> Health professionals feel that rural hospitals were a means to a political end

A mapping exercise funded by the World Bank aims to identify areas of needs and set standards. The plan to introduce a new tier to the service with ten regional hospitals is part of the government's aim to devolve more responsibilities away from the centre.

There is also a widespread feeling among health professionals that the relative abundance of isolated rural hospitals was a means to a political end: many of them spent a period in a sort of exile after showing signs of intransigence. Dr Bashkim Xhafa, a pathologist who is now head of the health ministry's foreign affairs department, for example, spent 14 years working as a general practitioner in an isolated village after asking to be sent on a training course.

A programme of updating and expanding the skills of 500 general doctors and 1,800 nurses, funded by the EU's Phare programme, is part of the reform.

Some of this is basic skills updating. "We have trained physicians who were sent to work in villages for 30 years without access to new books," says Mr Cikuli.

The government's economic reforms include plans for a type of national insurance where employers will pay a large part of each worker's contribution, and a plan to sell subsidised drugs where only certain disadvantaged groups are exempt from payment.

Other reforms have sparked growth of private sector development. One 34-year-old entrepreneur has sought to answer one of the health service's most chronic needs with a diagnostic centre in Tirana. Mr Dilaver Yneri, a hotel proprietor, took out a US$1.2m loan from Albania's savings bank to build the unit and buy a US$500,000 medical scanner. He did so after having to take his brother to Greece for treatment after a serious road accident.

This Siemens-built machine is the only working scanner of its kind in the country and is described as a godsend by doctors. About 800 people have used the service since it opened five months ago, in spite of fees ranging from $110 to $220 per treatment.

The reforms so far have been boosted by aid from all the main international organisations, including a $12.4m soft loan from the World Bank and Ecu12m from the European Union's Phare programme. Opec is funding a study for a new general surgery hospital, and part funding, with the Islamic Bank, a 950m lek hospital in the port town of Durres.

No government agency in Albania appears to know exactly how much aid has been donated from non-government sources. Yet the contribution of western charities, and in particular a large number of religious organisations, is evident from the most cursory glance at a hospital ward or school room. Mr Cikuli compares their work to that of ants: "They are small in size but large in number and they do a lot of work."

The ministry contents itself with insisting that religious health centres fit in with its map of service needs.

Such aid and the government's own limited resources have had some effect – the ministry bought two helicopter ambulances earlier this month – but extra financing is needed if proper reform is to take place.

■ **Agriculture:** A simple lunch is evidence of a small miracle, writes **Jane Martinson**

One of the biggest success stories

Complex legal, economic, and social problems may yet undermine the successes

Farmer Broz Marku's belief in the benefits of democracy receives daily sustenance. Gesturing to a simple lunch of sausage, egg and tomato, he says: "Four years ago I could not have dreamt of such a lunch. I could not have seen it on television. Now this meal is an everyday event for us."

Mr Marku and his family worked in a state-run collective farm in Gurizi, 12 km south-east of Shkodra, until four years ago. The family, which now owns a cow and 30 chickens, remembers when lunch consisted of two kinds of bread, maize and wheat, while meat for dinner was "symbolic".

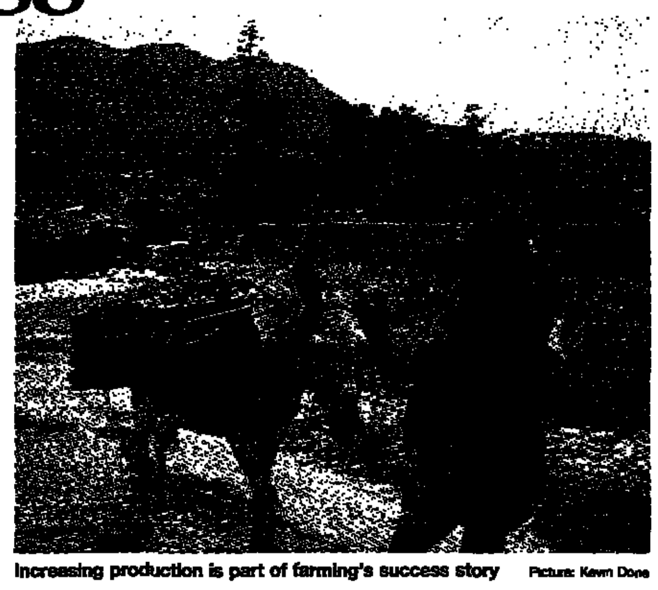
The seven adult members of the Marku family now live together in a new house on almost 14 sq km of land gained after their collective was dismantled in 1991. In spite of the "insecurities" of the marketplace, they are content.

Mr Marku, a 37-year-old *kryeplak*, or village elder, is perhaps better off than most. A profitable sideline in selling scarce chemical fertiliser bought from Fier, more than five hours' drive away, gave him the funds to build his house, while the family also has most of its land in one plot because of property rights dating from pre-Communist times.

The rapid and almost total privatisation of Albania's agricultural land, where about 60 per cent of the population lives, has been judged one of the greatest success stories.

The Organisation for Economic Co-operation and Development, in a report on transitional economies, says the turnaround in agriculture after two years of mass disruption led to the 11 per cent growth in the country's GDP in 1993. Agriculture's share of GDP also increased from about 33 per cent in the 1980s to 54 per cent last year.

But the transformation has brought complex legal, economic, and social problems which some observers feel will undermine the successes of the past four years. International agencies such as the OECD and the IMF, as well as the Albanian government, see the extreme fragmentation of land – the average farm consists of 1.5 ha split into 3.3 separate parcels of differing quality – as a main obstacle to growth.



Increasing production is part of farming's success story Picture: Kevin Done

A law passed in August which allowed the buying and selling of farmland for the first time, aims to solve this. In order to encourage land consolidation, a farmer who wants to sell must offer it to his family and neighbours before putting it on the open market.

The government hopes the law will solve a number of evils. Mr Myslym Osmani, deputy minister of agriculture, says: "There are too many people working in agriculture and we think the act will help to overcome this. At the same time land will be concentrated in the hands of fewer, more specialist, farmers who know how to manage their land." He estimates the average size of farms will double in 10 years.

Instead of improving things, however, some fear the act may only worsen a complex legal situation and the deep-rooted problems surrounding ownership rights.

In 1991 the government passed a law which legalised the land grab by members of state-owned farms after the fall of communism. Then in 1993 it sought to pacify those who had owned land prior to Communist land reforms, with legislation which gave them partial compensation but not the return of land. Compensation would be given in the form of vouchers to be invested in privatised industries, or land in areas where the state is undisputed owner, like the coast.

As privatisation of the first wave of industries started only earlier this month and the coastal land distribution has not been settled, former owners have not found the scheme overly attractive to date. Many continue to demand the return of "their" land.

Although land commissions moved with great speed to parcel out agricultural land – the government estimates 96 per cent has been distributed – only half of it has been legally titled, according to research carried out by Mr David Stanfield, who heads a land registration project in Albania, and Mr Agim Kukeli, a member of the agriculture ministry. Even owners of this legally titled land feel "insecure", because of the claims of former owners.

For some, insecurity is replaced by fear, according to Ms Rachel Wheeler, a research economist at the registration project. While Mr Osmani at the ministry says such problems are confined to "a few specific cases, especially in the north-east", Ms Wheeler says the fear many people experience has led to land being unfarmed and to the growth of "blood feuds" and violence in the villages. "The ability to buy and sell land will not solve the issue of feuds over ownership. It's a bit hard to care what's happening in parliament when the man at the end of the road is going to kill your son." She fears the ownership issues will become more difficult to resolve when land has been passed on to unknowing buyers.

Such uncertainties are unlikely to attract foreign investment. There have been about 20 joint ventures between foreign companies and the state, with total capital invested about $50m. These projects have been subject to a number of misunderstandings over contracts, says Mr Osmani. He hopes last month's law will help resolve many of these difficulties as investors can "enter into negotiations with private farmers".

The five-year land registration project, funded mainly by USAid, aims to set up a database of ownership and thus codify existing and outstanding claims. But partly because of the extent of legal complexities in a country which has had no private ownership at all since 1976, the project has thus far concentrated on uncontentious registrations.

In the face of such complexities credit is given to small-scale work such as that done by the Agricultural Development Fund, set up by the World Bank and other international donors three years ago, to provide credit to the poorest sections of the farming community. The scheme has so far funded more than 4,000 loans with an average value of between $200 and $1,000, for the purchase of livestock or processing equipment.

The fund is now increasing its maximum loan to $2,000, which it hopes will be used for small-scale food processing or to encourage small associations to buy machinery. Mr Aslan Visha, in the village of *Sall Bastar*, has used a *$1,000* credit to buy an ice-cream maker and a cow. Profits will be used to repay the credit. He wants to use the next loan to buy more land.

■ **Chrome mining** By Kevin Done

Silver lining to industrial hopes

It is hoped that last year's output can be tripled to reach 750,000 tonnes

At a depth of around 420m, the tunnel floors at the Bulqiza chrome ore mine are muddy and treacherous. Water showers through the dark, down the lift shafts.

Flashes of eerie blue light spark from the overhead wires, as old Chinese-built trolley locomotives haul the ore along the main tunnels. At the deeper levels the two-tonne trucks are manhandled to the lifts.

Scores of old trucks lie rusting in the narrow, dank tunnels, abandoned where they have broken down for lack of spare parts.

Miners walk to the face, many bereft of rudimentary safety equipment, without protective clothing, without hard hats. Some have no lamp or carry a hand torch.

Above ground, the buildings and plant look neglected and derelict amid the piles of waste, the tangle of cables and pipes, and decades of abandoned equipment.

But in spite of the appearance of the mine and the drab, forlorn town it sustains, Bulqiza, high on a spectacular mountain plateau in eastern

Chrome, oil and gas are pivotal to plans for industry

Albania, is beginning to see better times.

The chrome mines, along with the oil and gas fields of the coastal plain, are at the centre of Albania's plans for reinvigorating its industrial sector – supported, it is hoped, by foreign direct investment.

Much of Albania's antiquated industry closed down in the wake of the collapse of communism. Derelict heavy industry plants from steel to chemicals, textiles and paper mills now scar the landscape of former industrial centres. Industrial production fell by more than 80 per cent from 1990, and most of the old plants will never reopen.

Nickel and iron ore mining has closed down since 1990, as have more than half of the coal mines, says Mr Alfred Mero, general director of the mining division of the ministry of mineral and energy resources. The workforce in the mining sector has been halved to around 10,000, and is now concentrated on chrome and copper production.

Output of chrome ore is still far below the levels achieved in the communist era, but the fortunes of the sector and of Albchrome, the state-owned mining and smelting group, are improving thanks to a surge in prices and demand in the world market. Albchrome has ambitious plans to expand production, if agreement can be reached on co-operation with a strategic foreign partner.

Production of ore totalled 223,000 tonnes last year – of which the Bulqiza mine alone accounted for 105,000 tonnes – compared with an output of 1.2m tonnes 6 years ago, according to Mr Ramadan Disha, Albchrome general director. Production is rising again, however, and is forecast to reach 300,000 tonnes this year. Output of ferrochrome, the most important value-added product from the ore, is forecast to rise from 33,760 tonnes in 1994 to 44,000 this year.

Driving the increased output, says Mr Disha, is the doubling in ferrochrome prices from around 30 US cents per pound 12 months ago to the present level of around 73 cents per pound - the free-on-board price at the main Albanian port of Durres. Demand is strong from the stainless steel industry, which consumes around 80 per cent of world chrome output.

Before the drastic fall in output in recent years, Albania was the world's third largest producer of chrome ore behind South Africa and the former Soviet Union (Kazakhstan), although it has now slipped to eighth. It is the only country in Europe with significant reserves, however, estimated at more than 37m tonnes of recoverable ore, or 5 per cent of total world deposits.

"Albchrome is working profitably now," says Mr Disha. After suffering a loss of \$3m last year, it made a profit of \$3.8m in the first half of 1995 alone. "We think the second half of the year will be a good period too," he says.

Western mining consultants who have studied the Albchrome operations, say it is still grossly overmanned, but the workforce has already been more than halved to around 6,500 from 14,000 in 1989. Close to 5,000 work in the mines, with 1,200 at the two smelting plants and 500 in the ore dressing plants.

Wages have risen sharply in response to the company's improved fortunes, with the earnings of the 1,900 underground workers at Bulqiza doubling to around \$200 a month this year according to Mr Veli Losha, chief engineer at the mine. (The average wage in Albania is around \$70 a month).

"Under the socialist system we did not work with accounts, we worked in a fog," says Mr Losha, "and salaries were the same for everyone. Now we have started to reduce labour. This enterprise has more freedom to set wages, and production is doing better."

Production at Bulqiza is expected to rise by almost a quarter to 130,000 tonnes of ore this year, close to the production level of the communist era.

Plans are being prepared for the privatisation of Albchrome, including the entry of foreign investors to hold part of the equity. Mr Disha says that Albchrome will be transformed soon into a joint stock company.

"We want real equity from a foreign partner. We are looking for a joint venture to last at least 15 years," he says. The foreign partner must bring capital and technology to the venture, while Albchrome will contribute assets.

After some false starts in the last couple of years, Albania is currently studying joint venture proposals from six international consortia, and Mr Disha says it hopes to submit its recommendation to the government by the end of October. The European Bank for Reconstruction and Development is also keen to participate both as equity investor and lender.

Albchrome has a strategic plan for investing between \$80m and \$100m to develop the chrome mining and smelting industry over the next 6-7 years, if it can reach agreement with a foreign investor. It hopes to triple last year's output to 750,000 tonnes of ore and 106,000 tonnes of ferrochrome a year by the late 1990s.

■ **Privatisation:** Much more than just a way for the state to shed loss-making functions. By **Jane Martinson**

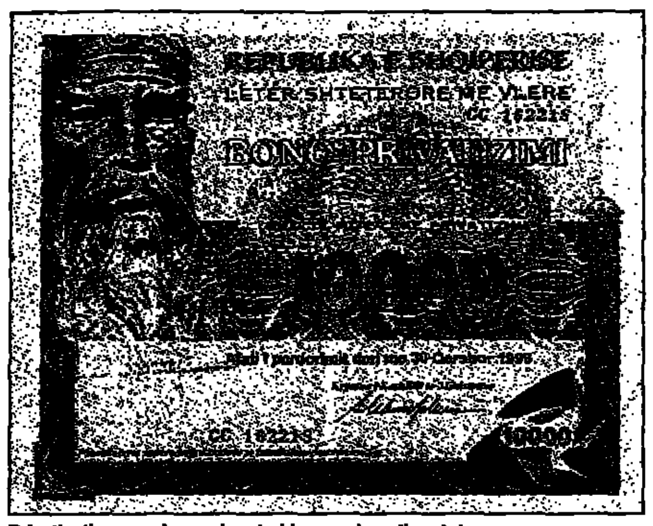
A means to economic education

There is a belief that only private enterprise earns respect and therefore profits

As director of the national agency for privatisation, Mr Niko Glozheni has a central role in turning Albania into a shareholding democracy. He is overworked.

A constant stream of people file in and out of his office in Tirana asking for advice, wanting signatures, warning of problems. The activity reached a crescendo as the government's mass privatisation programme took off this summer.

The voucher-based programme aims to transfer larger enterprises out of state ownership and into private hands as quickly as possible. The scale of the task is daunting. The agency must set up a legal framework for share ownership, prepare the enterprises for privatisation, and arrange the auctions. It also distributes vouchers: to former political prisoners; adults who have not benefited from any other privatisations; and those whose compensation claims for such privatisations have been agreed, before having to explain the privatisation process to them. Two working groups are also looking at the development of investment funds and the creation of a stock exchange.


Privatisation vouchers: shareholders replace the state

In spite of the enormity of the task it is the speed of it which concerns Mr Glozheni as well as some members of Albania's ruling Democratic Party. "The speed of privatisation is the first criterion because we are in a transition," he says.

Finance Minister Dylber Vrioni says he is "very concerned" about maintaining "the rhythm of change to keep people interested".

By September 11 when the first wave of 20 enterprises were offered for sale, some 900,000 people had received part of their voucher entitlement, according to Mr Glozheni. After 45 days the people who have used their vouchers to bid for the enterprises will receive shares in that company in proportion to the number of vouchers used. Such a system will "value" the industries.

The system has a number of political and economic aims and is a cornerstone of the Democratic Party's agenda. Mr Vrioni describes the programme as essential if Albania is to enter a market economy. "Albanians are still spending lots of energy being jealous of each other and not looking at how to improve. So we thought it was the right time to introduce them to an economic education. They have to know how the market works."

He contrasts the situation with that in the west where "even beggars know what a change in interest rates means". There is also a widespread belief that only privately owned enterprises earn respect and therefore profits.

The urgency is spurred by the desire to involve Albanians in the process of privatisation before elections next spring.

Mass privatisation comes after great changes in the ownership structure of small enterprises, changes which were often spontaneous. The privatisation law of 1991 codified the de facto distribution of agricultural land to members of former state farms, and allowed the rapid privatisation of small businesses such as retail shops. Housing was privatised in 1993. Many small or medium-sized enterprises – defined as having fewer than 300 employees or a book value of less than \$500,000 – have been auctioned by the agency in the last two years. Mr Glozheni says that while only 2,800 units were privatised last year, they were ten times the value of the 9,000 the year before.

But the bigger the industry, the more difficult Mr Glozheni's task. Entrepreneurs saw an easier profit to be made from setting up one of the now ubiquitous kiosks in Albania than from taking part of its larger industries. The agency is thus left with an estimated 1,000 such enterprises which have not yet been privatised.

It has so far identified more than 350 as ready for privatisation, after leaving aside those with outstanding ownership problems and the strategic industries such as telecommunications, which will be handled separately.

At the same time as the agency was set up, an Enterprise Restructuring Agency was established to deal with 32 of the most problematic cases, such as those with the worst arrears. Funded by a World Bank IDA credit, the agency commissioned surveys which analysed each sector in which it operated. Its restructuring saw jobs in the 32 enterprises plummet from 49,100 in 1988 to 13,000 at the end of last year, and a predicted 9,100 at the end of this year.

It held an auction of six enterprises last December in which only one, Silicate Bricks in Tirana, was bid for.

Possible joint ventures have faltered over valuation disagreements and conflict over the rights of former owners. The agency got powers last month to liquidate companies.

While nobody doubts the achievements so far, there have been criticisms. The government sought to answer some when last month it removed the bar on non-nationals owning land. The willingness of foreign investors to become involved in larger industries has been negligible to date.

Other criticism goes deeper. Mr Kutlay Ebiri, the World Bank representative in Albania, fears that the "strong, radical and courageous" ideas of the government may have "fizzled out" by the time they get to the people in the form of mass privatisation vouchers. He points out the dangers in weighting the distribution of vouchers towards those over 55, who get twice as many as the under 35-year-olds. These people are likely to be less enthusiastic and more likely "to want a nice dinner than a voucher", he says. The Bank had advised the government to sell off about 250 enterprises in a one-day event.

Other observers have said the emphasis on the elderly in voucher distributions has led to weak demand, which has prompted the devaluation of the vouchers – just before the auction they were trading at 26 per cent of their face value. The government argues that the elderly have less time in which to enjoy the proceeds of the voucher distribution.

The government recognises that it, too, has little time to convince the electorate. Mr Vrioni called for an "education" programme to explain the scheme while Mr Glozheni started a series of television appearances at the beginning of September. They have until next June at the latest, when the first phase of mass privatisation ends, to convince the electorate of the scheme's benefits. But, with the elections set for earlier, the timetable may be tighter than that.

■ **Banking:** *Poor financial services are holding up the growth of the economy, writes* **Kevin Done**

Finance reform initiatives under way

Street dealers with wads of bank notes are a reminder of how far banking still has to go

The lack of developed banking services is a serious impediment to the expansion of the Albanian economy.

Reforms have been delayed, but the Finance Ministry and the Bank of Albania, the central bank, are seeking urgently to make progress, including the privatisation and restructuring of the state-owned banks, and the setting up of new privately owned banks.

With the help of institutions such as the International Monetary Fund and the World Bank, the central bank is also developing ambitious plans for a functioning capital market. Treasury bills have been issued since last year and a secondary market is planned to begin in the first quarter of next year.

A recent law has been passed allowing the establishment of investment funds – as part of the wider mass voucher privatisation programme that is under way – and it is hoped to start a stock market in 1996.

However, the scores of licensed foreign exchange dealers that throng the pavements outside the central bank, with wads of bank notes and well-used calculators in hand, are a visible reminder of how far the central bank still has to go to establish formal financial institutions.

To a great extent Albania still operates as a cash and barter economy, with many transactions completely bypassing official banking channels. According to a recent report on future investment prospects prepared for the government, the informal financial sector (carried on principally through relatives and friends) has been a more important source of credit for private businesses than the state banks.

"There is a general distrust of the state banks, frustration about the difficulties of transacting business through the banks, a general lack of medium term credit (one to three years), and problems of being able to provide the collateral required by the banks," says the report.

"There is an urgent need to improve and expand bank services. Most domestic transactions remain cash based. For foreign currency transactions, the street market has proved efficient and competitive...Improved transfer services are urgently needed."

Mr Kris Luniku, the highly regarded 33-year-old governor of the central bank, is leading the drive to create a modern banking and financial services sector, in a country in which financial institutions barely existed before 1992.

He is anxious to bring the informal financial channels under the regulation of the central bank, but not until effective institutions can be created to take their place.

The central bank is trying to bring a light touch to regulating the informal credit market by seeking to persuade operators to open legitimate banking businesses. "We want to stimulate the sector. We are telling them that they are illegal, but that we want to be friends, that they should come under the law and open a bank," says Mr Luniku.

The central bank, itself only created in 1992 when a two-tier banking system was established, needs to meet daunting challenges in a short time.

At present the banking sector consists chiefly of the National Commercial Bank, the Savings Bank and the Rural Commercial Bank, which are all state-owned.

To respond to the weakness of the banking system, the government has created a new unit at the Ministry of Finance and the central bank which is responsible for pushing through reforms that can lead to privatisation.

According to a recent assessment by western financial experts, "the development of the commercial banking system has been hampered by the lack of legal standards, poor reporting and accounting, a slow and inadequate payments system, the lack of legal protection for collateral and enforcement of claims, and, most importantly, lack of experience with banking techniques, including risk assessment and portfolio management". New lending by the state-owned commercial banks has been sharply curtailed in the face of a further rise in the share of non-performing loans.

"Without a good banking system, it is not easy for the private sector to develop," says Mr Dylber Vrioni, the Albanian Finance Minister. "The banks are still running in the same way as before, and it is not easy to improve their performance."

The Ministry of Finance is now taking steps to convert the state banks into joint stock companies, to upgrade the banks' facilities and computer systems and to start external audits as a basis for preparing privatisation proposals.

Mr Luniku says the plan is to privatise the National Commercial Bank and the Rural Bank, while the state would prefer to keep a stake in the Savings Bank. The need to create efficient institutions is urgent, and the government is prepared to pursue various strategies, including the sale of individual branches from the state banks, the creation of regional banks and the sales of stakes to strategic foreign investors.

The Rural Commercial Bank could be first in line for privatisation. A feasibility study has been prepared, and potential interest has been expressed, says Mr Luniku, by Crédit Agricole of France, Istituto Bancario San Paolo Di Torino and Raiffeisen Bank of Austria.

The other priority is to attract other foreign institutions to Albania to compete with the state banks. Progress hitherto has been slow, with only two joint venture banks, both formed with National Commercial Bank: the Italian-Albanian Bank, created with Banca di Roma and with the European Bank for Reconstruction and Development holding a 20 per cent stake; and the Arab Albanian Islamic Bank. There is also one wholly private bank, Dardania Bank, with capital from ethnic Albanians from Kosovo.

Applications have been received from five Greek banks, and it is hoped institutions such as the American Albanian Enterprise Fund and the German development bank Kreditanstalt für Wiederaufbau will also use funds channelled to Albania to establish local banks.

Foreign oil companies move in

International oil companies are showing increased interest in exploring for oil and gas, writes Kevin Done.

Since offshore exploration was opened up for the first time in 1991, around \$80m has been invested in seismic studies and for the drilling of three wells.

In addition more than \$60m will be spent during the coming year, with companies including Occidental, OMV, Agip and BHP committed to drilling another four exploratory wells offshore by the end of 1996, according to Mr Fatbardh Ademi, executive director of the Albanian national petroleum agency.

Of the wells already drilled in 1993 and 1994, one by Agip was dry, but two others drilled by Occidental and Chevron have both found gas, although not in commercial quantities.

"It is all at a very early stage of exploration, but it is interesting, because Albania was closed before. It is virgin territory and there is oil elsewhere in the region," says Mr Charles Jamieson, chief executive of Premier Oil, the medium-sized UK oil company.

Oil has been produced onshore in Albania since the 1920s, and in the last couple of years there have been both oil and gas discoveries across the median line in the Italian sector of the Adriatic Sea.

Exploration drilling onshore by foreign oil companies, which were granted concessions last year, is expected to begin in earnest in late 1996 and 1997, with wells planned by Shell, Coperex of France and INA Naftaplin, the Croatian oil company.

The national petroleum agency is planning to launch a second onshore licensing round in the late autumn, with the offer of 8 blocks covering the rest of the country.

Foreign oil companies are optimistic that the introduction of modern exploration and production technologies can transform the prospects of the oil industry in Albania.

As in other sectors, much of the plant and equipment in use is obsolete, and output has fallen in recent years from 2m tonnes a year in the early 1980s to little more than 500,000 tonnes a year or 10,000 barrels a day at present.

The oil sector faces dire environmental problems onshore, with crude oil leaking directly on to farmland and into streams and rivers from corroded, cracked wellheads and pipes. The four refineries in Albania are also in very poor condition. Two have been closed and the main plant at Ballsh is working at only about 25 per cent of its 1m tonnes a year capacity.

Albpetrol, the state-owned Albanian oil company, is concentrating much of its effort on attracting foreign assistance to improve the recovery of oil and gas from its existing seven onshore oil fields and three gas fields.

It has signed a pioneering agreement with Premier Oil, with which it has formed a joint venture company, Anglo Albanian Petroleum. The first projects include a scheme for enhancing production from the country's largest onshore field, Patos Marinze, close to the southern town of Fier.

At Patos-Marinze, there are reserves of around 1bn barrels in place and recoverable reserves estimated at 150m to 200m barrels. Anglo Albanian began the operation in August of a project to introduce secondary recovery techniques using steam injection.

■ **Economy:** Recovery has started from a very low base, writes **Kevin Done**

Stability emerges from years of chaos

One of the highest growth rates of any of the transition economies is rewarding efforts

Albania's success in stabilising its economy after the collapse of communism and the crisis years of 1991/92 has been unmatched in central Europe, and yet the starting point could hardly have been less favourable.

The demise of communism occurred later and was more disorderly than in other central and eastern European countries. By early 1992, real GDP, already the lowest in Europe, had fallen by more than 50 per cent from the 1989 peak; agricultural production and much of industry had collapsed; and the country was on the brink of hyperinflation.

Today it has one of the highest growth rates of any of the transition economies in East Europe, and it is even concerned that its rate of inflation might be too low. It embarked on a course of shock therapy following the election of the majority Democratic Party government in spring 1992, and has worked closely with the International Monetary Fund in charting the transition to a market economy.

Albania is still the poorest country in Europe. Its GDP per capita is estimated at less than $600, and wages in the public sector average only $65 to $70 a month.

The economy is unbalanced and crucially dependent on external financing. International aid and remittances from Albanians working abroad, amounting together to several hundred million dollars a year, support a huge trade deficit. In recent years, as an estimated 300,000 Albanians have left the country, the chief export has been people.

"Foreign aid and remittances alone amounted to 40 per cent of GDP in 1993. In comparison, exports generated only 7 per cent of GDP, which probably places Albania in a unique position in the world," says a report prepared for the bank advisory committee which negotiated the restructuring of Albania's foreign debt in the summer.

Unemployment is still around 18 per cent, and the crowds that gather outside the Italian embassy every day in the vain hope of gaining a visa, bear eloquent testimony to the number who would prefer to live outside the country.

In the face of such daunting problems, Albania has made surprising progress.

It is in its third year in succession of GDP growth of up to 9 per cent. According to the authorities, GDP grew by 11 per cent in 1993, by 7.4 per cent in 1994, and growth this year has been forecast at around 6 to 7 per cent, which is expected to be sustained to the end of the decade.

Despite the recovery, overall GDP last year was still 22 per cent lower than in 1990.

Inflation, running at 237 per cent year-on-year at the end of 1992, was reduced to 31 per cent at the end of 1993, and to 15.8 per cent at the end of 1994, with the authorities pursuing tight fiscal and monetary policies. In both June and July this year, the year-on-year rate of inflation was running at only 2.1 per cent, according to the Albanian Institute of Statistics.

Despite a seasonal acceleration in the second half of the year, inflation is still expected to be around 5 per cent at the end of 1995, although the introduction of a value added tax (VAT) system around the turn of the year is expected to add to inflationary pressures.

The domestically financed budget deficit has come down from 45 per cent in 1991 to 8 per cent last year, and is expected to meet this year's target of 7 per cent. The lek has been stable for more than 12 months at between 85 and 95 to the dollar.

"Although it is the poorest country in Europe, Albania has made one of the most rapid transitions to a market economy over the last three years," says a report from PlanEcon, the Washington economic analysts. The government has "transformed an economy of inefficient industrial plants and collectivised agriculture into one of small farmers, traders and businessmen".

In the process, industry has been relegated to a minor role in the economy, with industrial output falling by almost 80 per cent since 1990.

Last year the share of industry in GDP was only 13 per cent compared with 37 per cent in 1990, according to Ministry of Finance figures. Industrial output declined a further 2 per cent last year. The most important contributors to industrial output are now mining, energy and food processing.

The recovery in the economy has been driven chiefly by the revival in agriculture, as well as by construction and services. Agriculture accounted for 56 per cent of GDP last year compared with 40 per cent in 1990. Output increased by 7 per cent in 1994, following rises of around 14 per cent in 1993 and 18 per cent in 1992.

Agricultural output plunged in 1990/91 as a result of the dismantling of the former co-operatives and the breakdown of distribution systems. Fortunes have improved rapidly in response to the early privatisation of virtually all co-operative and state farmlands and the liberalisation by mid-1992 of most agricultural prices.

According to the PlanEcon report, food markets are now in balance. It forecasts that the country "should become a net exporter of food products in the near future".

The most dynamic sector in Albania is construction, where output jumped by 15 per cent last year following increases of 5 per cent in 1992 and 32 per cent in 1993. Its share of GDP from 6.6 per cent in 1991 to 9.5 per cent in 1994.

Growth has come from small companies in the private sector, whose fortunes have been boosted by growing private control of real estate, strong income growth in agriculture, and rising private cash transfers from Albanians working abroad.

Trade moves to the west

Albania's alarming trading performance has begun to improve in the last 18 months, although it continues to run up large deficits, writes Kevin Done.

Exports which collapsed in 1991/92, rose by 26 per cent last year to $141m; while imports declined marginally to $601m from $602m in 1993.

The trade deficit of $460m, down from $490m a year earlier, was still more than three times the size of total exports, and imports were equivalent to 34 per cent of GDP.

The deficit on the current account of the balance of payments at $146m was smaller than the trade deficit, thanks to private remittances and grants from bilateral and multilateral donors, which together keep the country afloat. Private transfers from abroad, consisting mainly of emigrants' remittances, were conservatively estimated at $266m in 1994, nearly twice the value of exports. They support an active foreign exchange market, much of it conducted by street traders in the main square of Tirana outside the central bank, and help to finance thriving consumer goods imports.

The country's chief trading partner is Italy, which is also its main bilateral aid donor and the main source of foreign direct investment.

Albania has reoriented its trade like other countries in East Europe, and most of its links are now with EU member states and the US.

Italy's share of Albania's exports has jumped to more than 50 per cent from just under 10 per cent in 1990, while Greece and the US each account for around 10 per cent, followed by states of the former Yugoslavia (6 per cent) and Germany (4.8 per cent).

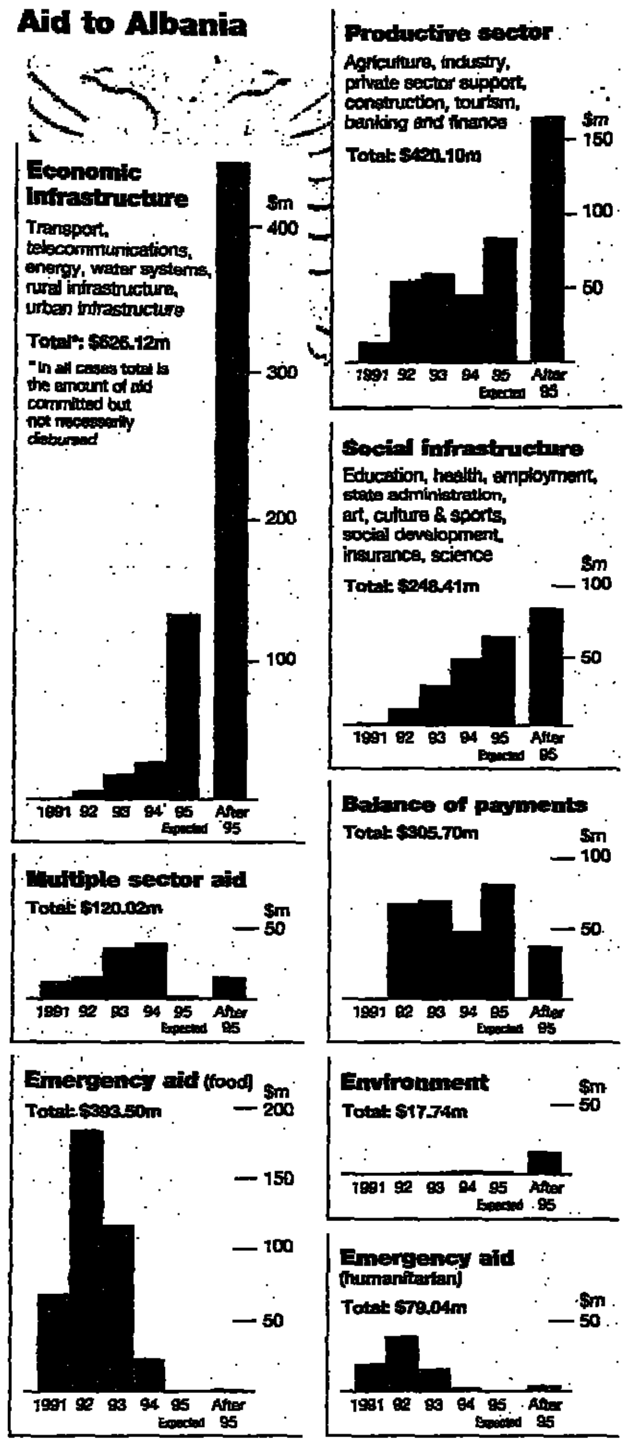
Italy is the source for more than a third of Albanian imports followed by Greece (24 per cent), Bulgaria (8.2), Germany (5.5), Turkey and former Yugoslavia.

Albania's most important exports are chrome and chrome products (18 per cent), bitumen (10.7 per cent), tobacco (6.5 per cent) and electricity (4.9 per cent), while other exports include copper, petroleum and food products.

Imports of agricultural products have declined in recent years due to increased domestic output, and imports are now made up mainly of industrial goods.

The private sector accounts for 60 per cent of exports and 93 per cent of imports.

Aid to Albania



	1991	1992	1993	1994	Expected 1995	After 1995	Grand total
Total aid ($m)	115.89	376.94	347.84	231.32	368.26	770.89	2,210.64
Leading donors ($m)							
EU	19.2	146.77	145.05	56.59	131.29	173.74	671.65
World Bank	0	3.03	23.18	40.94	45.51	182.23	294.90
Italy	38.77	36.92	58.15	30.65	40.89	77.45	282.83
US	3.36	14.49	42.90	30.26	34.13	71.72	196.86
Germany	4.03	11.97	15.29	21.95	26.86	40.34	120.45
Japan	0	1.89	0.8	8.4	7.5	43.91	62.50

Source: Council of Ministers of Albania, Department of Economic Development & Foreign Aid Coordination

■ **Infrastructure:** The biggest roadblock to progress. By **Kevin Done**

Investing for the future

Spending must tackle past neglect, and also meet the challenges of urban drift

The biggest obstacle to economic development in Albania is the state of the country's neglected infrastructure.

From the road network to telecommunications, water and power supplies, the ports, airports and health and education services, the country is struggling to enter the modern era.

Albania survived the early crisis years of transition from its Stalinist past with the support of massive external humanitarian and food aid.

Now, thanks to the recovery of the agricultural sector, the country is again able to feed itself, and the focus of the aid effort has moved towards project support, as Albania starts to invest for its future.

The spending on water and power, roads and telecommunications, health and education, must tackle not only the neglect of past years, but must also meet the challenge of the urban drift that will take place in coming years.

"In the last three years, there has been free movement of population for the first time in 50 years," says Mr Dashamir Shehi, deputy prime minister and minister for tourism and construction. "In 1990, 65 per cent of the population lived in villages and in the countryside and only 35 per cent in urban areas. You cannot pretend to be in Europe with that kind of population structure."

The majority of the population still lives in rural areas, but Mr Shehi estimates the share living in urban areas is now above 40 per cent. The population of the capital Tirana has jumped from 300,000 three years ago to around 400,000, and is expected to exceed half a million by the end of the decade. Growing shanty towns around the edges of the city bear testament to the task that lies ahead.

Albania has embarked on an ambitious $1.3bn three-year public investment plan aimed at beginning the transformation of its social, economic and administrative infrastructure.

According to Mr Edmond Leka, director of the economic development department, around $350m is to be spent this year on infrastructure projects, $470m in 1996 and $502m in 1997. Of the total of $1.3bn, some $296m is earmarked for spending on improving water supplies and $209m for upgrading the transport system, most urgently the road network. Some $166m is to be devoted to modernising the energy sector, while $183m will be spent on health and education, $152m on the agriculture sector and $68m on telecommunications.

In the main port city of Durres, a World Bank study showed that 77 per cent of the people living in the area – 209,000 of of the total of 272,000 – received only four hours of water service daily; that half of the water supplied was lost; and that if sufficient water were available to maintain system pressure for 24 hours, losses would amount to 70 per cent of the water supplied. An $11.6m loan has been granted by the International Development Association, an affiliate of the World Bank, to begin the rehabilitation of water and sewerage systems in Durres.

"Since 1991 because of tremendous increases in small scale economic activity, overall consumption and population mobility, all forms of physical infrastructure have come under severe pressure," says Mr Kutlay Ebiri, chief of the World Bank resident mission in Tirana.

"Roads and bridges, sea and air ports, telecommunications, irrigation canals, power distribution and transmission lines, water supply and sewerage networks, and urban services and the housing stock cannot catch up with the fast growing demand for their services. They are deteriorating rapidly or bursting at the seams. They need to be substantially rehabilitated, properly maintained and significantly expanded."

It is estimated that 50-60 per cent of the power generated in Albania is not actually paid for, with a quarter lost through technical defects and 25-35 per cent lost through illegal electricity consumption.

In telecommunications fewer than 10 per cent of dialled long distance calls are successful, while the average waiting time for manually connected calls is 90 minutes.

Of Albania's 17,400km road network, design standards are low and many parts are in disrepair. Around 2,900km of paved main roads and 5,000km of unpaved secondary roads are administered by the central government. The country also has 9,500km of rural roads, once the responsibility of state farms or co-operatives that have ceased to exist.

"Although the districts have the responsibility of maintaining the rural roads, no action has been taken, largely because of a lack of funds," a World Bank report said earlier this year. "This has left nearly 1m people in some 400 villages and numerous settlements with roads inaccessible to motorised vehicles for a portion of the year."

The main investment in roads is centred on creating the East-West and North-South corridors. The former will link the main port of Durres, itself a focus for significant redevelopment, with Kapshtica on the border with Greece and with Macedonia at Lake Ohrid.

Much of this 240km of road will form a section of the corridor that is planned eventually to act as a transit route from Durres on the Adriatic through Albania, Macedonia and Bulgaria to the Black Sea at Varna and Burgas.

The UN embargo on trade with Serbia and the Greek blockage until this month of Macedonia's trade and access to the Greek port of Salonika have given a powerful impetus to transit trade through Albania, although the route is constrained by the inadequate roads and port facilities.

The North-South corridor links Albania with Greece and Montenegro, but financing plans and feasibility studies are not as advanced as for the East-West route.

At the port of Durres an $8.7m rehabilitation scheme, partly financed by funds from Kuwait, is already under way and work is expected to begin next year on a $10m project to create a modern roll-on/roll-off ferry terminal. The aim is to make Durres a regional port for the southern Balkans.

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Sep 29 / Sch)

[illegible]

BELGIUM/LUXEMBOURG (Sep 29 / Frs.)

[illegible]

CZECH REP (Sep 29 / Koruna)

[illegible]

DENMARK (Sep 29 / Kr)

[illegible]

FINLAND (Sep 29 / Mkk)

[illegible]

FRANCE (Sep 29 / Frs.)

AGF	134.50	+1.50	213.80	119.10	3.3
Accor	610	+1	680	521	4.4
AirLiq	784	+13	835	706	2.7
Alctel	414.10	-13.90	539	379.10	5.4

GERMANY (Sep 29 / Dm.)

[illegible]

GREECE (Sep 29 / Drachma)

[illegible]

ITALY (Sep 29 / Lira)

[illegible]

NETHERLANDS (Sep 29 / Fls.)

[illegible]

NORWAY (Sep 29 / Kroner)

[illegible]

POLAND (Sep 29 / Zloty)

[illegible]

PORTUGAL (Sep 29 / Escudo)

[illegible]

SPAIN (Sep 29 / Pts.)

[illegible]

SWEDEN (Sep 29 / Kronor)

[illegible]

SWITZERLAND (Sep 29 / Frs.)

[illegible]

TURKEY (Sep 29 / TK Lira)

[illegible]

PACIFIC

JAPAN (Sep 29 / Yen)

[illegible]

HONG KONG (Sep 29 / H.K.$)

[illegible]

INDONESIA (Sep 29 / Rupiah)

[illegible]

MALAYSIA (Sep 29 / MYR)

[illegible]

NEW ZEALAND (Sep 29 / NZ $)

[illegible]

SINGAPORE (Sep 29 / S$)

[illegible]

AUSTRALIA (Sep 29 / Aust$)

[illegible]

SOUTH KOREA (Sep 29 / Won)

[illegible]

TAIWAN (Sep 29 / TW $)

[illegible]

THAILAND (Sep 29 / Baht)

[illegible]

AFRICA

SOUTH AFRICA (Sep 29 / Rand)

[illegible]

NORTH AMERICA

CANADA

TORONTO (Sep 29 / Can $) 4 pm close

[illegible]

MONTREAL (Sep 29 / Can $) 4 pm close

[illegible]

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1995, except Toronto & Montreal (daily). ‡ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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INDICES

	Sep 29	Sep 28	Sep 27	1995 High		1995 Low	
Argentina							
General (29/12/77)	14117.71	14076.44	13858.77	16531.10	2/1	9831.09	9/3
Australia							
All Ordinaries(1/1/80)	2135.7	2117.9	2125.2	2186.00	18/9	1823.30	8/2
All Mining(1/1/80)	978.6	969.4	974.5	1029.60	7/8	795.30	8/2
Austria							
Credit Aktien(30/12/84)	361.83	358.72	357.71	395.42	2/1	350.32	30/3
Traded Index(2/1/91)	977.59	973.82	972.45	1058.31	2/1	934.83	30/3
Belgium							
BEL20 (1/1/91)	1452.08	1457.79	1456.05	1481.39	2/8	1271.59	9/3
Brazil							
Bovespa (29/12/83)	46701.0	45887.0	45480.0	48612.08	19/9	4531.60	8/9
Canada							
Metals Minls♦(1975)	4862.31	4848.92	4785.83	5262.77	21/8	3806.63	1/3
Composite♦ (1975)	4530.10	4521.50	4500.10	4710.90	12/7	3991.41	30/1
Portfolio§§ (4/1/83)	2213.19	2216.85	2201.27	2307.81	12/7	1953.36	30/1
Chile							
IGPA Gen♥(31/12/80)	5819.1	5791.3	5707.0	6383.10	11/7	4576.90	9/3
Denmark							
CopenhagenSE(3/1/83)	362.60	361.48	363.80	375.44	25/8	330.01	29/3
Finland							
HEX General(28/12/90)	2186.87	2141.22	2164.74	2332.22	14/9	1555.30	29/3
France							
SBF 250 (31/12/90)	1181.72	1187.76	1200.00	1322.30	12/5	1154.41	13/3
CAC 40(31/12/87)	1781.49	1767.58	1791.82	2017.27	12/5	1721.80	13/3
Germany							
FAZ Aktien(31/12/58)	803.27	797.59	807.72	846.76	19/9	768.87	30/3
Commerzbank(1/12/53)	2303.8	2284.7	2314.9	2427.60	19/9	2018.70	30/3
DAX (30/12/87)‡	2187.04	2171.92	2185.44	2317.01	15/9	1918.96	28/3
Greece							
Athens SE(31/12/80)	949.95	940.75	938.75	992.59	4/8	787.15	16/3
Hong Kong							
Hang Seng(31/7/64)	9546.34	9800.56	9850.60	9797.49	15/9	6967.93	23/1
India							
BSE Sens.♥(1979)	3480.48	3456.52	3466.39	3932.89	2/1	3015.07	3/5
Indonesia							
Jakarta Comp.(10/8/82)	493.24	491.94	490.21	519.18	11/8	414.21	19/4
Ireland							
ISEQ Overall(4/1/88)	2144.60	2132.19	2133.67	2170.73	15/9	1813.59	23/1
Italy							
Banca Comm Ital (1972)	617.39	615.18	623.75	680.54	10/2	587.59	23/3
MIB General (2/1/95)	975.0	971.0	985.0	1076.00	10/2	929.00	23/3
Japan							
Nikkei 225 (16/5/49)	17913.06	18022.86	18262.43	19684.04	4/1	14485.41	3/7
Nikkei 300 (1/10/82)	269.72	268.93	271.07	288.16	4/1	222.26	13/6
Topix (4/1/68)	1438.16	1435.77	1443.15	1553.40	4/1	1193.16	13/6
2nd Section (4/1/68)	1872.34	1876.74	1863.15	2130.66	4/1	1441.98	13/6
Malaysia							
KLSE Comp.(4/4/86)	1000.60	992.16	1006.68	1085.04	5/5	840.87	24/1
Mexico							
IPC (Nov 1978)	(u)	2381.49	2343.06	2622.21	8/9	1447.52	27/2
Netherland							
CBS TtRtnGen(End 83)	505.0	500.5	502.7	511.80	19/9	422.80	23/3
CBS All Shr (End 83)	304.3	303.4	305.0	311.10	15/9	265.20	23/3
New Zealand							
Cap. 40 (1/7/86)	2112.77	2097.27	2105.02	2165.79	18/5	1901.43	5/1
Norway							
Oslo SE(Ind)(2/1/83)	1269.93	1264.86	1273.11	1291.58	19/9	1036.00	10/3
Philippines							
Manila Comp (2/1/85)	2629.25	2645.00	2663.21	2958.12	10/7	2249.39	27/3
Portugal							
BTA (1977)	2694.9	2600.6	2594.4	2911.80	9/1	2580.70	25/9
Singapore							
SES All-S'pore(2/4/75)	517.07	515.27	514.48	535.08	5/1	472.80	23/1
South Africa							
JSE Gold (28/9/78)	1513.4♥	1502.9	1515.1	2023.00	2/1	1317.20	19/5
JSE Indl. (28/9/78)	7111.9♥	7082.6	7079.8	7111.90	29/9	6222.00	31/1
South Korea							
KoreaCompEx(4/1/80)~	987.06	985.87	980.78†	1027.37	2/1	847.09	27/5
Spain							
Madrid SE (30/12/85)	305.84	302.54	303.74	318.98	13/9	283.30	26/6
Sweden							
AffarsvarldnGen (1/2/37)	1842.3	1815.8	1810.8	1872.10	19/9	1439.80	29/3
Switzerland							
Swiss Bk Ind (31/12/58)	1402.12	1395.47	1399.61	1423.67	19/9	1174.63	13/3
SBC General (1/4/87)	1045.73	1041.23	1046.24	1055.03	28/9	878.58	13/3
Taiwan							
WeightedPr.(30/6/66)~	5013.43	(c)	5076.42	7051.49	5/1	4503.37	14/8
Thailand							
Bangkok SET (30/4/75)	1294.23	1292.06	1293.09	1472.04	10/7	1135.69	16/3
Turkey							
Istanbul Cmp.(Jan 1986)	41707.82	41064.3	41115.8	54693.90	21/4	24844.31	23/1
WORLD							
MS Capital Int (1/1/70)§	704.5*	699.7	698.4	704.80	29/9	595.21	23/1
CROSS-BORDER							
Eurotrack 100(26/10/90)	1412.87	1405.44	1413.48	1480.69	15/9	1222.41	13/3
Euro Top-100 (26/6/90)	1280.96	1268.92	1274.58	1316.68	15/9	1117.34	9/3
JCapitDrgns (31/12/88)	(u)	331.85	333.21	349.47	14/7	282.07	23/1
Barings Emerg.(7/1/92)	146.98	145.79	146.48	158.87	2/1	117.15	10/3

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
■ CAC-40 (200 x index)							
Sep	1752.0	1759.8	-8.2	1769.0	1745.0	39,019	16,168
Oct	1761.0	1793.0	+19.0	1794.0	1754.0	33,282	25,938
■ DAX							
Dec	2204.0	2188.5	-19.0	2217.0	2177.0	25,696	78,787
Mar	2235.5	2208.5	-18.5	2235.5	2202.0	329	1,976
■ OMX							
Oct	1433.00	1437.00	-6.0	1441.00	1426.00	5,120	16,094
Nov	1443.00	1447.00	+11.0	1447.00	1439.50	40	410
■ SOFFEX							
Oct	3023.0	3018.0	-15.5	3027.0	2992.0	4,869	15,844
Nov	3010.0	3025.0	-4.0	3011.0	3010.0	14	256
■ S&P 500							
Dec	589.20	588.20	-1.00	592.60	587.70	71,987	179,302
Mar	594.40	592.95	-1.00	597.25	592.50	63	6,398
■ Nikkei 225							
Dec	18240.0	18100.0	-200.0	18340.0	18040.0	24,476	152,399
Mar	18240.0	18080.0	-160.0	18240.0	18080.0	411	5,149

Open interest figures for previous day.

~ Sat Sep 23: Taiwan Weighted Price 4991.57; Korea Comp Ex 991.30. Base values of all indices are 100 except: Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 28 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Sep 29 - 2201.41 +17.17

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♠ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

US INDICES

Dow Jones	Sep 29	Sep 28	Sep 27	1995 High	1995 Low	Since compilation High	Since compilation Low
Industrials	4789.08	4787.64	4762.35	4801.80 (14/9)	3832.08 (30/1)	4801.80 (14/9/95)	41.22 (2/7/32)
Home Bonds	103.09	103.13	103.22	103.75 (13/7)	93.63 (3/1)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	1954.25	1950.80	1922.82	2009.39 (18/9)	1473.19 (3/1)	2009.39 (18/9/95)	12.32 (8/7/32)
Utilities	214.28	214.74	212.50	214.74 (28/9)	183.03 (3/1)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 4834.96 (4810.03) Low 4757.65 (4731.84) (Theoretical♠)
Day's high 4816.54 (4787.64) Low 4761.86 (4756.37) (Actual♠)

Standard and Poors	Sep 29	Sep 28	Sep 27	1995 High	1995 Low	Since compilation High	Since compilation Low
Composite ‡	584.43	585.87	581.04	586.77 (20/9)	459.11 (3/1)	586.77 (20/9/95)	4.40 (1/6/32)
Industrials♥	686.52	688.12	683.79	691.27 (20/9)	546.28 (3/1)	691.27 (20/9/95)	3.62 (21/6/32)
Financial	59.33	59.29	58.45	59.39 (29/9)	41.64 (3/1)	59.33 (29/9/95)	8.64 (1/10/74)
NYSE Comp.	313.26	313.29	311.32	314.33 (20/9)	250.73 (3/1)	314.33 (20/9/95)	4.46 (25/4/42)
Amex Mkt Val	544.72	544.28	540.65	553.58 (12/9)	433.12 (6/1)	553.58 (12/9/95)	29.31 (9/12/72)
NASDAQ Cmp	1043.54	1047.06	1026.54	1067.40 (13/9)	743.58 (3/1)	1067.40 (13/9/95)	54.87 (31/10/72)

■ RATIOS

	Sep 22	Sep 15	Sep 8	Year ago
Dow Jones Ind. Div. Yield	2.42	2.40	2.44	2.76
	Sep 27	Sep 20	Sep 13	Year ago
S & P Ind. Div. yield	2.07	2.06	2.07	2.58
S & P Ind. P/E ratio	17.84	18.14	17.95	20.78

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Micron	6,475,200	79½	-3⅝
Nat Semi	4,274,300	27⅝	-1⅛
Telefonos	3,429,800	31¾	...
Compaq	3,252,000	48⅜	-1⅛
AT & T	3,177,800	65¾	-½
Texas Insts	2,816,800	79⅞	-2½
McDonalds	2,729,300	38¼	-⅛
Comp Ass	2,696,200	42⅛	+⅞
IBM	2,585,500	94⅜	...
Digital Equip	2,534,400	45⅝	+⅞

■ TRADING ACTIVITY

● Volume (million)	Sep 29	Sep 28	Sep 27
New York SE	335.216	367.813	410.978
Amex	21.331	22.652	21.198
NASDAQ	(u)	459.901	534.747
NYSE			
Issues Traded	3,015	2,999	3,015
Rises	1,445	1,446	843
Falls	772	784	1,461
Unchanged	798	769	711
New Highs	170	134	78
New Lows	17	31	44

■ TOKYO - MOST ACTIVE STOCKS: Friday, September 29, 1995

	Stocks Traded	Closing Prices	Change on day
Fujitsu Ltd	14.8m	1250	+10
Nippon Steel	6.0m	346	+1
Japan Wool	5.8m	711	
Marui	5.5m	1850	+30
Nip Hsg Loan	4.9m	40	-8
Mitsubishi Hvy	4.7m	760	+3
Oki Electric	4.4m	918	-25
Pacific Mtls	4.3m	645	+31
Hitachi	4.1m	1080	
Itochu	3.9m	611	+1

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Sep 29		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	15.8459	+0.0289	356 - 582	15.8643	15.7435	15.8155	2.9	15.7569	2.2	-	-	108.9
Belgium	(BFr)	46.2824	+0.0522	398 - 849	46.4000	46.0010	46.1674	2.5	45.9774	2.5	45.2424	2.2	109.3
Denmark	(DKr)	8.7405	-0.0005	353 - 456	8.7538	8.6989	8.7329	1.1	8.7163	1.1	8.6538	1.0	109.9
Finland	(FM)	6.7428	-0.0085	367 - 489	6.7820	6.6990	6.7384	0.8	6.7303	0.7	-	-	88.6
France	(FFr)	7.7713	+0.004	675 - 751	7.7858	7.7286	7.766	0.8	7.7547	0.9	7.698	0.9	110.3
Germany	(DM)	2.2521	+0.0037	507 - 535	2.2565	2.2353	2.2473	2.6	2.2371	2.7	2.1941	2.6	111.9
Greece	(Dr)	366.791	+0.732	279 - 302	367.355	364.894	-	-	-	-	-	-	67.7
Ireland	(I£)	0.9779	-0.0001	770 - 788	0.9795	0.9764	0.9771	1.0	0.9758	0.9	0.9728	0.5	97.8
Italy	(L)	2550.52	+3.9	892 - 212	2555.30	2538.24	2557.77	-3.4	2572.67	-3.5	2640.82	-3.5	69.5
Luxembourg	(LFr)	46.2624	+0.0522	398 - 849	46.4000	46.0010	46.1674	2.5	45.9774	2.5	45.2424	2.2	109.3
Netherlands	(Fl)	2.5211	+0.0039	195 - 227	2.5270	2.5046	2.5154	2.7	2.5099	2.7	2.4577	2.5	109.3
Norway	(NKr)	9.9012	-0.0077	959 - 064	9.9147	9.8588	9.8888	1.5	9.8668	1.4	9.7914	1.1	99.4
Portugal	(Es)	236.580	+0.886	412 - 768	236.975	234.862	237.13	-2.7	238.35	-3.0	-	-	95.3
Spain	(Pta)	194.973	+0.419	832 - 114	195.422	193.866	195.433	-2.8	196.368	-2.9	200.648	-2.9	80.7
Sweden	(SKr)	10.9697	-0.1009	523 - 751	11.0259	10.9284	10.9659	-0.2	10.9704	-0.2	10.9938	-0.3	82.7
Switzerland	(SFr)	1.8188	+0.0032	172 - 198	1.8261	1.7981	1.8128	3.9	1.8009	3.9	1.7503	3.8	115.8
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	84.7
Ecu	-	1.2168	+0.0018	161 - 174	1.2189	1.2096	1.2157	1.1	1.2135	1.1	1.2041	1.0	-
SDR†	-	1.05161	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5825	+0.0007	819 - 830	1.5842	1.5775	-	-	-	-	-	-	-
Brazil	(R$)	1.5084	-0.0013	078 - 089	1.5109	1.5046	-	-	-	-	-	-	-
Canada	(C$)	2.1318	-0.0057	307 - 329	2.1361	2.1255	2.1313	0.3	2.1309	0.2	2.1448	-0.6	84.7
Mexico	(New Peso)	10.0739	-0.1617	828 - 850	10.1110	10.0618	-	-	-	-	-	-	-
USA	($)	1.5827	+0.0007	822 - 832	1.5848	1.5780	1.5816	0.8	1.5796	0.8	1.5707	0.8	92.4
Pacific/Middle East/Africa													
Australia	(A$)	2.0969	-0.0041	948 - 989	2.0994	2.0940	2.0982	-0.7	2.1011	-0.8	2.1158	-0.9	85.8
Hong Kong	(HK$)	12.2367	+0.0035	320 - 413	12.2529	12.2011	12.2332	0.3	12.2208	0.5	12.1872	0.4	-
India	(Rs)	53.6931	-0.0554	524 - 338	53.7900	53.5570	-	-	-	-	-	-	-
Israel	(Shk)	4.7446	-0.0013	392 - 499	5.0378	4.7323	-	-	-	-	-	-	-
Japan	(Y)	156.133	-1.324	005 - 262	156.270	154.240	155.378	5.8	153.808	6.0	147.208	5.7	145.6
Malaysia	(M$)	3.9734	+0.001	713 - 754	3.9764	3.9584	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.4041	-0.0121	024 - 057	2.4070	2.4021	2.4101	-3.0	2.4193	-2.5	2.4449	-1.7	100.5
Philippines	(Peso)	41.2373	+0.0261	005 - 740	41.2755	41.1365	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.9361	+0.0026	339 - 383	5.9436	5.9188	-	-	-	-	-	-	-
Singapore	(S$)	2.2490	-0.0046	475 - 505	2.2509	2.2412	-	-	-	-	-	-	-
South Africa	(R)	5.7788	+0.0088	758 - 818	5.7832	5.7607	-	-	-	-	-	-	-
South Korea	(Won)	1215.83	+0.14	529 - 637	1217.28	1212.38	-	-	-	-	-	-	-
Taiwan	(T$)	42.8303	-0.2571	064 - 541	43.0379	42.7133	-	-	-	-	-	-	-
Thailand	(Bt)	39.6942	-0.0061	658 - 225	39.7280	39.5680	-	-	-	-	-	-	-

† Rates for Sep 28. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Sep 29		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P Morgan index
Europe													
Austria	(Sch)	10.0120	+0.0126	088 - 153	10.0200	9.9800	9.9969	1.8	9.9668	1.8	9.8575	1.5	106.9
Belgium	(BFr)	29.2300	+0.02	250 - 350	29.3020	29.1000	29.189	1.7	29.11	1.6	28.81	1.4	109.0
Denmark	(DKr)	5.5225	-0.0028	210 - 240	5.5372	5.4987	5.5232	-0.2	5.519	0.3	5.5285	-0.1	109.1
Finland	(FM)	4.2603	-0.0073	578 - 628	4.2936	4.2305	4.2599	0.1	4.2588	0.1	4.2543	0.1	87.8
France	(FFr)	4.9102	+0.0004	093 - 110	4.9215	4.8890	4.9098	0.1	4.9087	0.1	4.9007	0.2	109.8
Germany	(DM)	1.4230	+0.0018	225 - 234	1.4252	1.4145	1.421	1.7	1.4168	1.8	1.3985	1.7	111.3
Greece	(Dr)	231.750	+0.36	500 - 000	232.230	230.720	233.475	-8.9	236.675	-8.5	250.15	-7.9	67.2
Ireland	(I£)	1.6185	+0.0009	175 - 195	1.6207	1.6125	1.6187	-0.1	1.6189	-0.1	1.6253	-0.4	-
Italy	(L)	1611.50	+1.75	100 - 200	1614.00	1605.50	1617.35	-4.4	1629.1	-4.4	1682	-4.4	69.1
Luxembourg	(LFr)	29.2300	+0.02	250 - 350	29.3020	29.1000	29.189	1.7	29.11	1.6	28.81	1.4	109.0
Netherlands	(Fl)	1.5929	+0.0018	924 - 934	1.5955	1.5840	1.5902	2.0	1.5852	1.9	1.5652	1.7	108.6
Norway	(NKr)	6.2559	-0.0076	545 - 572	6.2753	6.2316	6.2521	0.7	6.2459	0.6	6.2359	0.3	98.4
Portugal	(Es)	149.485	+0.355	420 - 550	149.700	148.550	149.95	-3.7	150.96	-3.9	155.585	-4.1	95.6
Spain	(Pta)	123.190	+0.21	140 - 240	123.460	122.600	123.57	-3.7	124.34	-3.7	127.835	-3.8	80.5
Sweden	(SKr)	6.9272	-0.0669	222 - 322	6.9753	6.9038	6.9447	-3.0	6.9812	-3.1	7.1497	-3.2	81.9
Switzerland	(SFr)	1.1490	+0.0015	485 - 495	1.1536	1.1370	1.146	3.1	1.1399	3.2	1.1129	3.2	115.5
UK	(£)	1.5827	+0.0007	822 - 832	1.5848	1.5780	1.5816	0.8	1.5796	0.8	1.5707	0.8	84.0
Ecu	-	1.3008	-0.0013	005 - 010	1.3074	1.2978	1.3012	-0.4	1.3019	-0.3	1.3042	-0.3	-
SDR†	-	0.66537	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	-	998 - 999	1.0000	0.9996	-	-	-	-	-	-	-
Brazil	(R$)	0.9531	-0.0012	530 - 531	0.9534	0.9530	-	-	-	-	-	-	-
Canada	(C$)	1.3470	-0.0042	467 - 472	1.3501	1.3465	1.3477	-0.6	1.3496	-0.8	1.363	-1.2	83.4
Mexico	(New Peso)	6.3650	-0.105	600 - 700	6.3800	6.3600	6.3673	-0.4	6.3704	-0.3	6.3753	-0.2	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	93.7
Pacific/Middle East/Africa													
Australia	(A$)	1.3249	-0.0031	240 - 257	1.3276	1.3234	1.3267	-1.6	1.3303	-1.6	1.35	-1.9	86.6
Hong Kong	(HK$)	7.7315	-0.0012	310 - 320	7.7327	7.7310	7.733	-0.2	7.735	-0.2	7.7552	-0.3	-
India	(Rs)	33.9250	-0.05	100 - 400	34.0100	33.9000	34.075	-5.3	34.38	-5.4	35.85	-5.7	-
Israel	(Shk)	2.9978	-0.0021	953 - 002	3.1895	2.9929	-	-	-	-	-	-	-
Japan	(Y)	98.6500	-0.88	000 - 000	99.7500	97.4700	98.205	5.4	97.31	5.4	93.555	5.2	144.4
Malaysia	(M$)	2.5105	-0.0005	100 - 110	2.5112	2.5050	2.5105	0.0	2.5109	-0.1	2.5185	-0.3	-
New Zealand	(NZ$)	1.5188	-0.0084	184 - 195	1.5235	1.5180	1.5229	-3.2	1.5304	-3.1	1.5551	-2.4	-
Philippines	(Peso)	26.0550	+0.005	400 - 700	26.0700	26.0400	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7506	-	504 - 508	-	-	3.7511	-0.2	3.752	-0.1	3.7551	-0.1	-
Singapore	(S$)	1.4210	-0.0035	205 - 215	1.4216	1.4188	1.4176	2.9	1.4113	2.7	1.3865	2.4	-
South Africa	(R)	3.6513	+0.004	505 - 520	3.6525	3.6445	3.6766	-8.3	3.7266	-8.3	3.9578	-8.4	-
South Korea	(Won)	768.200	-0.25	100 - 300	768.700	768.000	771.2	-4.7	774.7	-3.4	793.2	-3.3	-
Taiwan	(T$)	27.0615	-0.1745	550 - 680	27.1820	27.0490	27.0815	-0.9	27.1215	-0.9	-	-	-
Thailand	(Bt)	25.0800	-0.015	700 - 900	25.0950	25.0530	25.1675	-4.2	24.815	4.2	26.035	-3.8	-

† SDR rate per $ for Sep 28. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Sep 28. Base average 1990=100

WORLD INTEREST RATES

MONEY RATES

September 29	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	4¼	4⅜	4¼	4⅜	4½	8.00	3.50	-
week ago	4⅛	4⅜	4⅜	4⅜	4½	8.00	3.50	-
France	5⅞	6⅝	6¼	6⅜	6⅝	5.00	-	6.15
week ago	6	6⅝	6⅝	6½	6½	5.00	-	6.15
Germany	4⅜	4⅛	4¼	4¼	4¼	5.50	3.50	4.08
week ago	4	4⅛	4¼	4¼	4¼	5.50	3.50	4.12
Ireland	5⅝	5¾	5⅝	6	6⅜	-	-	6.25
week ago	5⅝	5¾	5⅝	6⅛	6⅜	-	-	6.25
Italy	10¼	10⅜	10⅝	10⅝	10⅝	-	9.00	10.28
week ago	10⅜	10⅜	10½	10⅜	10⅝	-	9.00	10.17
Netherlands	3⅝	3¾	3⅞	3⅞	4	-	3.50	3.60
week ago	3⅞	3⅞	3⅞	3⅞	4⅛	-	3.50	-
Switzerland	3¼	2⅞	2⅜	2⅜	2⅜	5.00	2.00	-
week ago	2½	2⅜	2⅜	2⅜	2⅝	5.00	2.00	-
US	5⅝	5⅝	5⅞	5⅞	6⅝	-	5.25	-
week ago	5⅝	6⅝	5¾	5¾	5¾	-	5.25	-
Japan	7/16	11/32	11/32	½	9/16	-	0.50	-
week ago	7/16	11/32	⅜	⅝	⅜	-	0.50	-
$ LIBOR FT London								
Interbank Fixing	-	5¾	5⅝	5⅝	6	-	-	-
week ago	-	5¾	5⅝	5⅝	5⅝	-	-	-
US Dollar CDs	-	5.60	5.60	5.63	5.74	-	-	-
week ago	-	5.60	5.45	5.52	5.60	-	-	-
ECU Linked Ds	-	5⅜	5⅜	5⅜	5⅜	-	-	-
week ago	-	5⅜	5½	5½	5⅜	-	-	-
SDR Linked Ds	-	3⅜	3⅜	3⅜	3⅜	-	-	-
week ago	-	3⅜	3⅜	3⅜	3⅜	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Sep 29	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	4 7/32 - 4 3/32	4 7/32 - 4 3/32	4¼ - 4⅛	4 5/16 - 4 3/16	4 7/16 - 4 5/16	4½ - 4⅜
Danish Krone	6½ - 6¼	5 9/16 - 5 5/16	5⅞ - 5⅝	5 13/16 - 5⅝	5⅞ - 5⅝	5 15/16 - 5 11/16
D-Mark	4⅛ - 4	4⅛ - 3⅞	4⅛ - 4	4⅛ - 4	4⅛ - 4	4 1/16 - 3 13/16
Dutch Guilder	3 15/16 - 3 13/16	3 15/16 - 3 13/16	3⅞ - 3 13/16	3⅞ - 3 13/16	3⅞ - 3 13/16	4 - 3 13/16
French Franc	6 - 5½	6 - 5¾	6¼ - 6⅛	6 7/16 - 6 5/16	6½ - 6⅜	6⅜ - 6¼
Portuguese Esc.	8 15/16 - 8 13/16	8¾ - 8⅝	9⅛ - 8⅞	9⅜ - 9¼	9 9/16 - 9 7/16	9⅞ - 9⅝
Spanish Peseta	9⅜ - 9¼	9 7/16 - 9 5/16	9⅝ - 9¼	9 7/16 - 9 5/16	9½ - 9⅜	9¾ - 9⅝
Sterling	6¾ - 6 11/16	6¾ - 6 11/16	6¾ - 6 11/16	6 25/32 - 6 23/32	6 13/16 - 6¾	6 13/16 - 6¾
Swiss Franc	2 5/16 - 2 3/16	2 5/16 - 2 3/16	2½ - 2⅜	2½ - 2⅜	2½ - 2⅜	2½ - 2⅜
Can. Dollar	6 5/16 - 6⅛	6 3/16 - 6	6¼ - 6⅛	6 5/16 - 6 3/16	6 11/16 - 6 9/16	6⅞ - 6¾
US Dollar	5⅞ - 5¾	5 13/16 - 5 11/16	5 13/16 - 5 11/16	5⅞ - 5¾	5⅞ - 5¾	5 13/16 - 5¾
Italian Lira	8 9/16 - 8 5/16	10½ - 10¼	10 7/16 - 10 5/16	10 13/16 - 10 11/16	10⅞ - 10⅝	10 15/16 - 10 13/16
Yen	15/32 - 11/32	13/32 - 7/16	13/32 - 7/16	13/32 - 7/16	9/16 - ½	⅝ - 9/16
Asian $Sing	3 - 2⅞	2½ - 2⅜	2 5/16 - 2 3/16	2 11/16 - 2 9/16	2¾ - 2⅝	3 1/16 - 2 13/16

Short term rates are call for the US Dollar and Yen, others: two days' notice.

THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.16	94.21	+0.04	94.21	94.13	75,033	432,781
Mar	94.26	94.34	+0.08	94.35	94.21	92,194	360,924
Jun	94.16	94.28	+0.11	94.30	94.12	51,665	244,284

US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.70	94.77	+0.05	94.77	94.69	1,989	14,273
Mar	94.71	94.82	+0.08	94.82	94.70	143	3,494
Jun	-	94.78	+0.10	94.77	94.63	42	139

All Open interest figs. are for previous day

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Sep 29		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.90	16.80	4.868	2.114	5614	5.450	21.40	511.5	421.5	23.69	3.932	2.162	4.609	3.422	337.4	2.631
Denmark	(DKr)	52.92	10	8.890	2.576	1.119	2918	2.884	11.33	270.7	223.1	12.54	2.081	1.144	2.439	1.811	178.6	1.392
France	(FFr)	59.53	11.25	10	2.898	1.259	3283	3.244	12.74	304.5	250.9	14.10	2.341	1.287	2.744	2.037	200.9	1.566
Germany	(DM)	20.54	3.881	3.451	1	0.434	1133	1.119	4.397	105.1	86.59	4.867	0.808	0.444	0.947	0.703	69.32	0.540
Ireland	(I£)	47.30	8.938	7.946	2.303	1	2608	2.578	10.12	241.9	199.4	11.21	1.860	1.022	2.180	1.619	159.6	1.244
Italy	(L)	1.813	0.343	0.305	0.088	0.038	100.	0.099	0.388	9.275	7.644	0.430	0.071	0.039	0.084	0.062	6.119	0.048
Netherlands	(Fl)	18.35	3.467	3.083	0.893	0.388	1012	1	3.927	93.85	77.35	4.347	0.722	0.397	0.846	0.628	61.92	0.483
Norway	(NKr)	46.72	8.828	7.849	2.275	0.988	2577	2.546	10	239.0	196.9	11.07	1.837	1.010	2.153	1.599	157.7	1.229
Portugal	(Es)	19.55	3.694	3.284	0.952	0.413	1078	1.066	4.185	100.	82.42	4.632	0.769	0.423	0.901	0.669	65.98	0.514
Spain	(Pta)	23.72	4.483	3.985	1.155	0.502	1308	1.293	5.077	121.3	100.	5.621	0.933	0.513	1.093	0.812	80.05	0.624
Sweden	(SKr)	42.21	7.975	7.090	2.055	0.892	2328	2.300	9.034	215.9	177.9	10	1.660	0.912	1.945	1.444	142.4	1.110
Switzerland	(SFr)	25.43	4.805	4.272	1.238	0.538	1402	1.386	5.443	130.1	107.2	6.025	1	0.550	1.172	0.870	85.82	0.669
UK	(£)	46.26	8.741	7.771	2.252	0.978	2551	2.521	9.901	236.6	195.0	10.96	1.819	1	2.132	1.583	156.1	1.217
Canada	(C$)	21.70	4.100	3.645	1.056	0.459	1197	1.182	4.644	111.0	91.46	5.141	0.853	0.469	1	0.742	73.22	0.571
US	($)	29.22	5.522	4.909	1.423	0.618	1611	1.593	6.255	149.5	123.2	6.924	1.149	0.632	1.347	1	98.61	0.769
Japan	(Y)	29.63	5.600	4.978	1.443	0.627	1634	1.615	6.343	151.6	124.9	7.021	1.165	0.641	1.366	1.014	100.	0.780
Ecu		38.01	7.182	6.385	1.850	0.804	2096	2.071	8.136	194.4	160.2	9.006	1.495	0.822	1.752	1.301	128.3	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	0.7066	0.7024	-0.0037	0.7109	0.7016	18,328	46,291
Mar	0.7106	0.7057	-0.0037	0.7110	0.7054	86	2,405
Jun	-	0.7089	-0.0037	-	0.7089	19	61

SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	0.8797	0.8716	-0.0073	0.8855	0.8690	12,135	29,288
Mar	0.8912	0.8788	-0.0072	0.8912	0.8765	12	1,374
Jun	0.8920	0.8859	-0.0071	0.8945	0.8849	12	19

JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	1.0183	1.0126	-0.0057	1.0383	1.0126	19,626	57,387
Mar	1.0380	1.0269	-0.0058	1.0428	1.0269	549	8,267
Jun	1.0565	1.0406	-0.0060	1.0565	1.0406	2	274

STERLING FUTURES (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	1.5758	1.5782	+0.0020	1.5816	1.5750	4,198	30,281
Mar	1.5770	1.5748	+0.0022	1.5860	1.5748	7	119
Jun	-	1.5716	+0.0026	1.5730	1.5680	14	10

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Oct	CALLS Nov	CALLS Dec	PUTS Oct	PUTS Nov	PUTS Dec
1.540	4.20	4.55	5.05	-	0.51	1.04
1.550	3.28	3.77	4.35	0.08	0.73	1.34
1.560	2.48	3.06	3.70	0.23	0.93	1.69
1.570	1.73	2.47	3.12	0.48	1.30	2.10
1.580	1.12	1.91	2.84	0.87	1.74	2.33
1.590	0.66	1.45	2.59	1.42	2.28	2.57

Previous day's vol., Calls 3,499 Puts 7,166. Prev. day's open int., Calls 270,777 Puts 293,883

Pound in New York

Sep 29	Close	Prev. close
£ spot	1.5825	1.5805
1 mth	1.5814	1.5794
3 mth	1.5796	1.5774
1 yr	1.5712	1.5680

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the Emerging Markets page in today's edition.

UK INTEREST RATES

LONDON MONEY RATES

Sep 29	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	7⅜ - 6¼	6⅞ - 6⅝	6 13/16 - 6⅝	6⅞ - 6¾	6⅞ - 6¾	6⅞ - 6¾
Sterling CDs	-	-	6 23/32 - 6 21/32	6¾ - 6 11/16	6¾ - 6 11/16	6¾ - 6 11/16
Treasury Bills	-	-	6⅝ - 6 9/16	6 19/32 - 6 17/32	-	-
Bank Bills	-	-	6 21/32 - 6⅝	6⅝ - 6 19/32	6 9/16 - 6½	-
Local authority deps.	6½ - 6⅜	6 11/16 - 6 9/16	6 11/16 - 6⅝	6¾ - 6⅝	6¾ - 6 11/16	6¾ - 6⅝
Discount Market deps	7 - 6¾	6¾ - 6⅝	-	-	-	-

UK clearing bank base lending rate 6¾ per cent from February 2, 1995

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	3	5¾	5¾	6	6¼

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc.
Ave. tender rate of discount 6.5302pc. ECGD fixed rate Stlg. Export Finance. Make up day Sep 29, 1995. Agreed rate for period Oct 25, 1995 to Nov 25, 1995, Schemes II & III 8.04pc. Reference rate for period Sep 1, 1995 to Sep 29, 1995, Schemes IV & V 6.795pc. Finance House Base Rate 7pc from October 1, 1995

BANK OF ENGLAND TREASURY BILL TENDER

	Sep 29	Sep 22		Sep 29	Sep 22
Bills on offer	£1500m	£1500m	Top accepted rate	6.5580%	6.5379%
Total of applications	£6998m	£7182m	Ave. rate of discount	6.5378%	6.5302%
Total allocated	£1500m	£1500m	Average yield	6.6461%	6.6383%
Min. accepted bid	£98.385	£98.370	Offer at next tender	£1500m	£1500m
Allotment at min. level	69%	73%	Min. accept. bid 182 days	-	-

FT GOLD MINES INDEX

	Sep 29	% chg since 30/12/94	Sep 28	Mkt Cap $bn	% of Gold Mines	Gross div yield %	52 week High	52 week Low
Gold Mines Index (34)	1985.73	+0.5	1976.14	49.81	100.00	1.89	2332.49	1637.91
Regional Indices								
Africa (16)	2744.76	-14.0	2724.99	14.82	29.75	3.95	3711.87	2428.19
Australasia (6)	2398.38	-2.3	2373.26	6.08	12.20	2.10	2951.49	1788.20
North America (12)	1709.53	+10.7	1703.88	28.92	58.06	0.79	1882.64	1348.18

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LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1995 High	1995 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
50	F.P.	14.8	71	50	Consolidated Coal	67		-	-	-	-
-	F.P.	5.62	125	120	†Euro Sales Fin	125		-	-	-	-
-	F.P.	5.40	36	25	Hay & Robertson	36		v-	-	-	-
-	F.P.	12.2	80	68	†Inner Workings	73		-	-	-	-
65	F.P.	16.6	89	84	Mayflower	86½	+½	Zv0.67	2.6	1.0	49.3
-	F.P.	9.73	3¾	3½	Media Business	3¾		-	-	-	-
45	F.P.	17.6	61	52	†MultiMedia	61		v-	-	-	-
-	F.P.	-	101	100	Murray Vct	101		-	-	-	-
-	F.P.	5.24	96	70	†Omnicare	85	+1	Hv1.5	4.0	2.2	14.1
-	F.P.	14.4	61	60	Pemberstone	60		v-	-	-	-
100	F.P.	30.6	104	99	Pictet British	102		-	-	-	-
400	F.P.	3.82	400	400	†Preston Nth End	400		v-	-	-	-
125	F.P.	13.0	133	6½	†SCS Satellite	126	-2	-	-	-	-
149	F.P.	47.8	183	168	Universal Salvage	178		Mv5.07	1.7	3.6	20.8
-	F.P.	-	½	½	Upton & Sthn Wts	½		-	-	-	-

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1995 High	1995 Low	Stock	Closing price p	+or-
35	Nil	3/10	4pm	¾pm	Barcom	¾pm	
135	Nil	4/10	14pm	10pm	Bridon	13pm	
275	Nil	13/10	51pm	25pm	Close Brothers	38pm	
500	Nil	10/10	85pm	69pm	Johnson Matthey	85pm	+5
950	Nil	8/11	149pm	121pm	RMC	135pm	+14

pm premium.

BANK RETURN

BANKING DEPARTMENT	Wednesday September 27, 1995 £	Increase or decrease for week £
Liabilities		
Capital	14,553,000	
Public deposits	1,093,291,590	-83,241,711
Bankers deposits	1,844,883,419	+162,382,715
Reserve and other accounts	3,134,671,552	-115,219,632
	6,087,399,561	-36,078,628
Assets		
Government securities	1,610,572,112	+238,285,000
Advance and other accounts	2,005,376,571	-1,154,575,158
Premise, equipment and other secs	2,467,230,561	+890,687,922
Notes	3,942,093	-8,477,926
Coin	178,224	+1,534
	6,087,399,561	-36,078,628
ISSUE DEPARTMENT		
Liabilities		
Notes in circulation	19,286,057,907	+28,477,926
Notes in Banking Department	3,942,093	-8,477,926
	19,290,000,000	+20,000,000
Assets		
Other Government securities	17,920,374,040	-97,010,934
Other Securities	1,369,625,960	+117,010,934
	19,290,000,000	+20,000,000

BASE LENDING RATES

	%		%		%
Adam & Company	6.75	Duncan Lawrie	6.75	*Roxburghe Guarantee Corporation Ltd is no longer authorised as a banking institution.	10
Allied Trust Bank	6.75	Exeter Bank Limited	7.75	Royal Bk of Scotland	6.75
AIB Bank	6.75	Financial & Gen Bank	7.50	●Singer & Friedlander	6.75
●Henry Ansbacher	6.75	●Robert Fleming & Co	6.75	●Smith & Williamson Secs	6.75
Bank of Baroda	6.75	Girobank	6.75	TSB	6.75
Banco Bilbao Vizcaya	6.75	●Guinness Mahon	6.75	United Bank of Kuwait	6.75
Bank of Cyprus	6.75	Habib Bank AG Zurich	6.75	Unity Trust Bank Plc	6.75
Bank of Ireland	6.75	●Hambros Bank	6.75	Western Trust	6.75
Bank of India	6.75	Heritable & Gen Inv Bk	6.75	Whiteaway Laidlaw	6.75
Bank of Scotland	6.75	●Hill Samuel	6.75	Yorkshire Bank	6.75
Barclays Bank	6.75	C. Hoare & Co	6.75		
Brit Bk of Mid East	6.75	Hongkong & Shanghai	6.75		
●Brown Shipley & Co Ltd	6.75	Julian Hodge Bank	6.75		
Citibank NA	6.75	●Leopold Joseph & Sons	6.75		
Clydesdale Bank	6.75	Lloyds Bank	6.75		
The Co-operative Bank	6.75	Meghraj Bank Ltd	6.75		
Coutts & Co	6.75	Midland Bank	6.75		
Credit Lyonnais	6.75	* Mount Banking	6.75		
Cyprus Popular Bank	6.75	NatWestminster	6.75		
		●Rea Brothers	6.75		

● Members of London Investment Banking Association
* In administration

UK GILTS PRICES

Notes	Price £	Wk % +/-	Amnt £m	Interest due	Last xd	City line
Shorts (Lives up to Five Years)						
Treas 12¼pc 1995‡‡	100⅜	-.2	640	My15 Nv15	10.4	1299
14pc 1996	102⅛	-.2	770	Jy22 Ja22	15.6	1305
15¼pc 1996‡‡	104⅜xd	-.1	1,150	Nv3 My3	27.9	1309
Exch 13¼pc 1996‡‡	103⅝	-.2	800	Nv15 My15	10.4	1288
Conversion 10pc 1996	103⅛	-.1	3,409	My15 Nv15	10.4	1240
Treas 13¼pc 1997‡‡	108⅜	—	1,290	Jy22 Ja22	15.6	1302
Exch 10½pc 1997	104⅝	-.1	3,700	Au21 Fe21	17.7	1253
Treas Cnv 7pc 1997‡‡	100⅛	0.1	1,988	Fe6 Au6	30.6	4461
Treas 8¾pc 1997‡‡	103⅜	—	5,550	Mr1 Se1	26.7	1341
Exch 15pc 1997	115⅜xd	-.1	830	Ap27 Oc27	20.9	1299
9¾pc 1998	105⅜	—	3,550	Jy19 Ja19	12.6	1273
Treas 7¼pc 1998‡‡	100⅛xd	—	8,150	Se30 Mr30	24.8	1799
Treas 6¾pc 1995-98‡‡	99⅜xd	0.1	1,200	Nv1 My1	25.9	1331
Treas 15½pc '98‡‡	121⅜xd	-.1	936	Mr30 Se30	24.8	1308
Exch 12pc 1998	112⅜	-.1	3,809	My20 Nv20	13.4	1259
Treas 9½pc 1999‡‡	108⅛	-.1	1,900	Jy15 Ja15	8.6	1347
Treas Flg Rate 1999	100⅜	—	5,100	SJaSeDeMr	7.8	4945
Exch 12¼pc 1999	114⅝	-.1	3,050	Se26 Mr26	21.8	1264
Treas 10½pc 1999	109⅜	-.2	1,252	Nv19 My19	12.4	1288
Treas 6pc 1999‡‡	95⅜	-.2	6,600	Fe10 Au10	4.7	3635
Conversion 10¼pc 1999	109⅛	-.4	1,798	My22 Nv22	18.4	1242
Conv 9pc 2000‡‡	105¼	-.3	5,358	Se3 Mr3	28.7	1244
Treas 13pc 2000	120⅜	-.3	3,171	Ja14 Jy14	7.6	1298
14pc 1998-1	115⅞	-.2	878	Nv22 My22	18.4	1306
Five to Fifteen Years						
8pc 2000‡‡	101⅝	-.3	4,800	Ja7 De7	1.5	4948
10pc 2001	109⅜	-.4	4,406	Au26 Fe26	20.7	1280
7pc 2001‡‡	95⅜	-.6	7,500	My6 Nv6	30.3	3031
9¾pc 2002	109¼	-.6	6,527	Fe27 Au27	21.7	1349
8pc 2003‡‡	98⅜	-.7	8,350	De10 Je10	9.6	2019
10pc 2003	111⅜	-.7	2,503	Mr8 Se8	2.8	1281
Treas 11½pc 2001-4	115⅝	-.5	1,620	Se19 Mr19	14.6	1290
Funding 3½pc 1999-4	78⅜	-.9	543	Ja14 Jy14	7.6	1274
Conversion 9½pc 2004	108⅜xd	-.9	3,412	Ap25 Oc25	18.9	1246
Treas 6¾pc 2004‡‡	91⅛	-.9	6,500	My26 Nv26	19.4	3541
Conv 9½pc 2005	106⅜xd	-.9	4,842	Oc18 Ap18	11.9	1247
Treas 12½pc 2003-5	125⅜	-.7	2,200	My21 Nv21	18.4	1285
Treas 8½pc 2005‡‡	102⅜	-1.0	8,900	Ja7 De7	1.5	4946
7½pc 2006‡‡	95½	—	3,000	Ja7 De1	-	-
7¾pc 2006‡‡	96¾	-1.1	3,900	Mr8 Se8	2.8	2300
8pc 2002-6‡‡	99⅞xd	-.9	2,000	Ap5 Oc5	1.9	1334
Treas 11¾pc 2003-7	119⅜	-.8	3,150	Jy22 Ja22	15.6	1263
Treas 8½pc 2007‡‡	102⅛	-1.1	7,397	Ja16 Jy16	9.8	1309
13½pc 2004-8	132⅛	-.7	1,250	Se26 Mr26	26.9	1301
Treas 9pc 2008‡‡	106⅛xd	-1.1	5,621	Ap13 Oc13	6.9	1343
Treas 8pc 2009	98⅛	-.8	3,450	Mr25 Se25	21.8	1336
Over Fifteen Years						
Treas 6 1/4pc 2010	82⅜	-1.4	4,750	Mr25 Nv25	18.4	4832
Conv 9pc Ln 2011‡‡	108⅛	-1.4	5,273	Ja12 Jy12	12.6	1245
Treas 9pc 2012‡‡	108⅜	-1.4	5,360	Fe6 Au6	30.6	1701
Treas 5½pc 2008-12‡‡	77⅛	-1.9	1,000	Mr10 Se10	4.8	1330
Treas 8pc 2013‡‡	97⅞	-1.5	6,100	Mr27 Se27	21.8	2229
7¾pc 2012-15‡‡	95⅛	-1.4	800	Jy26 Ja26	19.6	1332
8pc 2015	97½	-1.6	6,500	Ja7 De7	1.5	4982
Treas 8¾pc 2017‡‡	104⅛	-1.6	7,550	Fe25 Au25	18.7	1982
Exch 12pc 2013-17	133½	-1.5	1,000	Ja12 De12	9.5	1260
Undated						
Consols 4pc	47¼	-2.2	359	Fe1 Au1	26.6	1239
War Loan 3½pc‡‡	42¼	-2.1	1,909	Jn1 De1	25.4	1352
Conv 3½pc '61 Aft	59⅛xd	-.9	115	Ap1 Oc1	25.8	1243
Treas 3pc '66 Aft	35⅛xd	-1.6	56	Ap5 Oc5	1.9	1324
Consols 2½pc	30⅛xd	-2.4	278	5JaApJyOc	1.9	1238
Treas. 2½pc	30xd	-1.1	475	Ap1 Oc1	26.8	1315

Index-Linked (b)	Notes	Price £	Wk % +/-	Amnt £m	Interest due	Last xd	City line
2pc '96	(67.9)	212⅛	-.1	1,200	Mr16 Se16	10.8	1313
4⅝pc '98‡‡	(135.6)	111⅜xd	-.5	800	Ap27 Oc27	20.9	1753
2½pc '01	(78.3)	175⅜	-.7	1,700	Mr24 Se24	18.8	1316
2½pc '03	(78.8)	171⅜	-.7	1,600	My20 Nv20	13.4	1317
4⅜pc '04‡‡	(135.6)	114⅜	-.9	1,000	Ap21 Oc21	14.9	1255
2pc '06	(69.5)	180⅛	-1.0	1,850	Ja19 Jy19	12.6	1314
2½pc '09	(78.8)	162⅛	-1.2	1,900	My20 Nv20	13.4	1318
2½pc '11	(74.6)	168⅛	-1.2	2,200	Fe23 Au23	17.7	1319
2½pc '13	(89.2)	138⅛	-1.4	2,750	Fe16 Au16	11.7	1320
2½pc '16	(81.6)	147⅛	-1.4	2,950	Ja26 Jy26	19.6	1321
2½pc '20	(83.0)	141⅛xd	-1.4	2,900	Ap16 Oc16	11.9	1322
2½pc '24‡‡	(97.7)	117⅛	-1.5	2,550	Ja17 Jy17	12.8	1323
4⅛pc '30‡‡	(135.1)	116⅛	-1.7	1,300	Ja16 Jy22	15.5	1134

(b) Figures in parentheses show RPI base for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in February 1987. Conversion factor 3.945. RPI for January 1995: 146.0 and for August 1995: 149.9.

Other Fixed Interest

Notes	Price £	Wk % +/-	Amnt £m	Interest due	Last xd	City line
Asian Dev 10¼pc 2009	114¼	—	100	Mr24 Se24	3'93	-
B'ham 11½pc 2012	122½	—	45	My15 Nv15	4'93	1837
Ireland Cap 9½pc '10	103½	-1.0	303	Ap1 Oc1	-	1486
9pc Cap 1998	104	-.2	725	Ja30 Jy30	-	-
13pc '97-2	110½	-.5	315	Ap1 Oc1	6'93	1426
Hydro Quebec 15pc 2011	146⅜	—	40	My31 Nv30	10'93	-
Leeds 13½pc 2006	132	—	40	Ap1 Oc1	3'93	3146
Liverpool 3½pc Irred	39	—	5	1JaApJlOc	6'93	-
LCC 3pc '20 Aft	33½	—	26	1JaApJlOc	6'93	-
Manchester 11½pc 2007	119½	—	6	Ap25 Oc25	3'93	3275
Met. Wtr. 3pc 'B'	70	—	25	Mr1 Se1	6'93	3361
N'wide Anglia 3⅞pc 2021	140½	—	60	Ja30 Jy30	1'93	3456
4⅛pc IL 2024	135	—	50	-	7'93	-
Utd Mex States 16½pc 2008	127	—	50	Mr1 Se1	8'93	-

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. £ Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Weekly percentage changes are calculated on a Friday to Friday basis.

STOCK INDICES

	Sep 29	Sep 28	Sep 27	Sep 26	Sep 25	1995 High	1995 Low	Since comp. High	Since comp. Low
FT-SE 100	3508.2	3479.0	3485.0	3523.3	3507.0	3579.8	2954.2	3670.8	986.9
FT-SE Mid 250	3948.8	3914.8	3909.9	3931.6	3916.5	3978.5	3300.9	4152.8	1379.4
FT-SE Mid 250 ex ITs	3970.7	3934.3	3927.5	3948.4	3934.6	3997.0	3308.4	4160.7	1378.3
FT-SE-A 350	1753.3	1738.5	1740.4	1757.4	1749.5	1778.3	1482.4	1778.3	664.5
FT-SE SmallCap	1970.43	1969.27	1971.32	1976.48	1974.74	1993.11	1678.60	3094.98	1363.79
FT-SE SmallCap ex ITs	1954.27	1952.87	1954.00	1958.50	1957.68	1972.36	1658.18	2090.72	1363.79
FT-SE-A All-Share	1733.73	1720.19	1722.0	1737.86	1730.61	1757.58	1469.20	1784.11	61.92

	Sep 29	Sep 28	Sep 27	Sep 26	Sep 25	1995 High	1995 Low	Since comp. High	Since comp. Low
FT-SE-A Fledgling	1072.90	1073.79	1074.55	1076.26	1074.96	1081.88	949.00	1081.88	949.00
FT-SE Eurotrack 100	1412.87	1405.44	1413.48	1436.80	1420.32	1490.88	1222.41	1549.19	800.45
FT-SE Eurotrack 200	1513.66	1502.32	1503.56	1528.62	1518.31	1585.62	1314.73	1607.18	938.62
FT Ordinary	2601.5	2586.6	2587.5	2614.5	2601.0	2686.5	2238.3	2713.6	49.4
FT Govt Securities	93.00	92.98	92.98	93.59	93.53	95.69	90.22	127.40	49.18
FT Fixed Interest	111.54	111.63	112.04	112.29	112.42	114.86	108.77	133.87	50.53
FT Gold Mines	1985.73	1975.14	1974.75	1985.54	1985.54	2337.8	1637.91	2367.40	922.16

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales

1/2 hour period	Provisional Prices for Trading on [illegible]: Pool purchase price	Final Prices for Trading on [illegible]: Pool purchase price	Final Prices: Pool selling price
[illegible]	[illegible]	[illegible]	[illegible]

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales

1/2 hour period	Provisional Prices for Trading on [illegible]: Pool purchase price	Final Prices for Trading on [illegible]: Pool purchase price	Final Prices: Pool selling price
[illegible]	[illegible]	[illegible]	[illegible]

C.A. La Electricidad de Caracas, SAICA-SACA

US $209,554,000 Floating Rate Bonds due 2003 Series A-1

US $13,828,000 Floating Rate Bonds due 1997 Series A-2

US $23,247,000 Floating Rate Bonds due 1998 Series B-1

[illegible]

October 2, 1995

USD 150,000,000

SOLVAY FINANCE (Bermuda) LTD

Floating Rate Notes due 1998

Serie 2 USD 30,000,000

Interest Rate 6.42969% p.a.

Interest Period September 29, 1995 March 29, 1996

Interest Amount due on March 29, 1996 per USD 500,000 USD 16,252.63

BANQUE GÉNÉRALE DU LUXEMBOURG

Agent Bank

FT MANAGED FUNDS SERVICE

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd
Pembroke Hall, Pembroke, Bermuda

[illegible]

BERMUDA (REGULATED)(**)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

Royal Bk of Canada O/S Fd Mgrs Ltd
PO Box 246, St Peter Port, Guernsey 01481 723021

[illegible]

Strauss Funds Mngmt (Guernsey) Ltd
PO Box 246, St Peter Port, Guernsey 01481 723021

[illegible]

Schroder Investment Mngmt (Guernsey) Ltd

[illegible]

GUERNSEY (REGULATED)(**)

ANZ Mngmt Co (Guernsey) Ltd

Apollo Investment Management Ltd

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

GAM Fund Management Ltd (a)

GT Asset Management (Ireland) Ltd

[illegible]

IRELAND (REGULATED)(**)

[illegible]

Capital Vision Fund Plc

Chemical Ireland Fund Administrators Ltd

Citi Investment Fund (Ireland)

Dalwa Europe Fund Managers Ireland

Dragon Korea Fund Plc

Dynamic Pacific Portfolio Fund Plc

Egerton Capital European Fund Plc

Emerging Dynamic Fund Plc

Emerging Market Growth Fund Plc

F.I.T. Investment Trust Ltd (a)

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

Mercury Fund Managers IoM Ltd
12-13 Hill Street, Douglas IoM 01624 662255

Quilter Intl Mngt (IoM) Ltd
Po Box 92, 19-21 Circular Rd, Douglas 01624 622999

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

John Govett Management (Jersey) Ltd

INVESCO International Limited

[illegible]

JERSEY (REGULATED)(**)

[illegible]

LUXEMBOURG (SIB RECOGNISED)

Den norske Bank
2 boulevard Royal, Lux 00 352 4590 3271

[illegible]

Mercury Asset Management S.A. - Contd.

[illegible]

LUXEMBOURG (REGULATED)(**)

[illegible]

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Credis Investment Funds

	Selling Price	Buying Price	Yield Gross	City-Line
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Merrill Lynch Asset Management - Contd.

	Selling Price	Buying Price	Yield Gross	City-Line
Pacific Equity Portfolio				
Class A	$9.62		–	54509
Class B	$9.57		–	54510
Global SmallCap Portfolio				
Class A	$8.80		–	[illegible]
Class B	$8.76		–	[illegible]
Technology Portfolio				
Class A	$14.27		–	[illegible]
Class B	$14.23		–	[illegible]
Capital Portfolio				
Class A	$10.20		–	[illegible]
Class B	$10.16		–	[illegible]
Monterey Trust SICAV				
NAV	$20.10		–	[illegible]
Morgan Stanley Sicav				
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Murray Universal, Sicav				
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
NICAM Asia Pacific Umbrella Fund				
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nikko Asia Convertible Bond Fund				
Nikko Asia Conv Bond NAV.	$5.67		–	[illegible]
Nikko Bank (Luxembourg) S.A.				
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Abtrust International Ltd

	Selling Price	Buying Price	Yield Gross	City-Line
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Professional Investment Consultants

	Selling Price	Buying Price	Yield Gross	City-Line
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Royal Life International

	Selling Price	Buying Price	Yield Gross	City-Line
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Butterfield Management Co Ltd

	Selling Price	Buying Price	Yield Gross	City-Line
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CA Securities Investment Fund Mgmt Ltd

	Selling Price	Buying Price	Yield Gross	City-Line
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CDC International

	Selling Price	Buying Price	Yield Gross	City-Line
[illegible]	[illegible]	[illegible]	[illegible]	44948

Global Asset Management - Contd.

	Selling Price	Buying Price	Yield Gross	City-Line
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Magnum Funds

	Selling Price	Buying Price	Yield Gross	City-Line
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Magna Asset Management Ltd

	Selling Price	Buying Price	Yield Gross	City-Line
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Malaysia Capital Fund Ltd

	Selling Price	Buying Price	Yield Gross	City-Line
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Malaysia Fund (Labuan)

	Selling Price	Buying Price	Yield Gross	City-Line
[illegible]	$15.23	[illegible]	–	[illegible]

Republic Funds

	Selling Price	Buying Price	Yield Gross	City-Line
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OTHER OFFSHORE FUNDS

	Selling Price	Buying Price	Yield Gross	City-Line
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OFFSHORE INSURANCES

	Selling Price	Buying Price	Yield Gross	City-Line
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

MANAGED FUNDS NOTES

[illegible]

LONDON SHARE SERVICE

BANKS, MERCHANT

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Barings 8pc Cm 2nd Prf..		90½‡	—	8%	–	Jan Dec	14.11	1797
9¼pc Non-Cum Prf		43¼‡	—	9¼%	–	Jan Jul	14.11	1421
Cater Allen	‡v	498	–2.0	28.0	2.2	Jan Aug	3.7	2061
Close Bros	‡qv	324xr	6.2	8.7	ϕ	Apr Nov	13.3	2168
Gerrard & Nat	‡v	457	–.9	22.5	1.3	Jul Dec	10.7	2888
Hambros	v□	195	–4.9	7.5	0.3	Aug Dec	19.6	2812
7½pc Cv Pf		104xd	–1.0	7½%	–	Oct Apr	4.9	4388
Joseph (L)	‡v	435	–3.3	17.85	1.0	Sep Dec	17.7	3060
King & Shaxson	‡v	138	–1.4	9.0	1.4	Jan Jul	28.6	3086
Rea Brothers	‡v	47xd	–2.1	1.0	2.4	May Sep	14.8	3786
Schroders	‡†hv□	1395xd	–1.0	14.17	5.1	May Oct	18.9	3939
N/V	†hv	1125xd	–.9	14.17	5.1	May Oct	18.9	3941
Singer & Fried	‡†v□	107xd	–.4	3.7	2.7	Nov Jun	25.9	4026
Union	‡v□	115	–4.2	3.0	–	Apr Aug	31.7	4353
Wintrust	‡v	295xd	....	11.35	1.5	Mar Oct	28.8	4624

BANKS, RETAIL

BREWERIES

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

هكذا من الأصل

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FT-SE Actuaries Share Indices.

INVESTMENT COMPANIES

INVESTMENT COMPANIES - Cont.

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

OIL EXPLORATION & PRODUCTION

OIL EXPLORATION & PRODUCTION - Cont.

OIL, INTEGRATED

OTHER FINANCIAL

OTHER SERVICES & BUSINESSES

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

SPIRITS, WINES & CIDERS

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

The Alternative Investment Market, designed primarily for small companies, is regulated by the London Stock Exchange but has less demanding rules than the SE Official List.

AMERICANS

CANADIANS

	Notes	Price	Wk% ch'nge	Div net	Div cov	Dividends paid	Last xd	City line
Trans Can Pipe	♥	8⅞	-1.8	84c		JaApJyOc	12'93	–

SOUTH AFRICANS

	Notes	Price	Wk% ch'nge	Div net	Div cov	Dividends paid	Last xd	City line
Anglo Am Ind		£31⅞	–	Q478c	ϕ	Oct Apr	3'93	–
Barlow	♣	27⅛	-.6	Q86c	2.8	Jan Jul	19.6	–
Gold Flds Prop R		146xd	–	Q80c	2.1	Feb Sep	1'94	–
MK Props		88	–	Q67.1c	–	Feb Sep	10'93	–
SASOL	♥	525	-2.4	Q78c	–	Oct	9'93	–
SA Brews		£19¼	-.6	Q200c	ϕ	Jun Dec	30.5	–
Standard Bank	□	£21⅝	-1	Q264c	3.1	Sep Mar	–	–
Tiger Oats		940	–	Q95c	2.8	Jan Aug	19.6	–
Tongaat-Hulett	†h	775	-.9	Q80c	2.4	Jan Jun	15.5	–

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in *pence* unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution; unless "v" is shown in the Notes field, indicating that the cover is calculated on a "net" basis. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ϕ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ☆ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend, cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v P/e ratio & net cover calculated under new ACT guidelines. z Dividend includes a special payment: Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1994-95. G Assumed dividend after pending scrip and/ or rights issue. H Dividend based on prospectus or other official estimates for 1995. K Dividend based on prospectus or other official estimates for 1994. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1995-96. Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xR ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1275 a year for each security shown, subject to the Editor's discretion

FT Share Service

The following changes have been made to the FT Share Information Service: **Additions: Hanover Intl** (Ls & Hts), **High Inc** (Inv Tst), **Benica Ports** (Trns), **African Gold, Amco, ClubPartners, Lancashire Entrs, Le Riches, Meltek, KWF, Park Ests** (Liv) and *Pan Andean*. Deletions: **Kleinwort Benson** (Bks Mer), **Doncion Tyson** (Bld Cstr), **Victaulic** (Eng). **Ovoca Res** (Ext Inds) and **Total** (Oil Intrg).

♣ FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣ . Please quote the code **FT1303.** Ring 0181 770 0770 (open 24 hours including weekends) or Fax 0181 770 3822. Reports will be sent the next working day, subject to availability.

Both Annual Reports and FT Company Focus are available from the above number.

FT Company Focus

Comprehensive 10-14 page report available on the company, containing key FT stories from the last year, latest survey of City profit forecasts and investment recommendations, 5 year financial and share price performance review, balance sheet and profit and loss data, plus recent Stock Exchange announcements for £5.45.

To order, call 0121 200 4678.

Reports published by ShareFinder Ltd.

FT Cityline

For up-to-the-second share prices call FT Cityline on 0336 43 or 0891 43 followed by the four-digit code listed after the share price. Calls charged at 39p per minute cheap rate and 49p per minute at all other times.

An international service is available for callers outside the UK, annual subscription £250 stg.

Call 0171 873 4378 for more information on FT Cityline.

For readers phoning from outside UK, please dial +44 in place of the first 0.

4 pm close September 29

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1995 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
18	12⅛	AAR	0.48	2.6	25	78	18¼	17⅞	18¼	+¾
24	16½	ALPharmaA	0.18	0.8	255	71	23⅛	22⅞	23	
46¼	35	AMP	0.92	2.4	20	6036	40⅛	38¼	38½	-1⅝
80⅛	63⅜	AMR			19	6811	73⅛	71⅞	72⅛	-⅛
47⅞	41¾	ASA	1.71	4.1	27	267	42½	42¼	42¼	
43⅞	30¾	AbbtL	0.84	2.0	21	11580	43	42⅜	42⅝	-⅛
18⅞	12	Abitibi Pr	0.40	2.3	20	1980	17½	17⅛	17⅜	+¼
28¾	21	ABM Ind	0.80	2.9	14	39	28½	28¼	28½	+⅛
17½	13½	Acptacein			11	266	15¾	15⅜	15½	+⅛
34¾	21⅞	ACE Ltd x	0.58	1.6	8	361	34½	34¼	34⅜	
9¾	8⅛	ACM Gvt In	0.90	9.4	8	1031	u9¾	9⅝	9⅝	
7¾	6½	ACM GvOpp	0.68	8.9		119	7⅜	7¼	7⅜	+⅛
7½	5¾	ACM Gvt Sp	0.75	10.9		288	7	6⅞	6⅞	
8¾	7¼	ACM Gvt Se	0.90	10.3		1315	u8¾	8⅝	8¾	
9½	7⅝	ACM Man	0.90	10.3		449	8⅞	8¾	8¾	
28¼	10¼	AcmeClv	0.48	1.8	13	142	26¾	26½	26¾	+⅜
38¾	9¼	Acme Elect			48	83	10	9¾	9¾	-¼
34½	26	Acordia	0.72	2.6	13	6	27½	27½	27½	-⅛
19⅛	8⅝	Actava	0.36	2.0	13	278	u19¼	18⅜	18⅜	-¾
16¾	10⅛	Acuson			35	616	13½	13⅛	13⅜	+⅛
18⅝	15⅝	Adams Expr	0.48	2.6	0	85	18½	18⅜	18⅜	
38⅞	25	AdvMic			8	14685	30⅜	29⅛	29⅛	-⅞
9¼	5	Advest Grp	0.16	1.8	16	118	u9⅜	8⅞	9⅛	+⅛
22⅞	16½	Advo Inc	0.10	0.4	19	3737	u23¾	22¾	23¾	+1
37¼	24.80	Aegon	1.28	3.5	19	59	36¼	36	36¼	+¼
5⅞	3⅛	Aerfix			9	94	5	4⅞	5	
[illegible]										
25¾	22¼	Bay St Gas	1.50	6.2	14	107	24⅜	23¾	24¼	+½
21⅞	19	Bd Tr 1638 x	1.64	7.8		17	21⅜	21⅛	21⅛	-¼
23⅜	15⅜	Bear Stns	0.60	2.8	13	1730	21⅞	21½	21½	-¼
43¾	40¾	BearStPfA x	2.75	6.5		2	42	42	42	
34	27½	Bearings	0.72	2.1	15	71	33⅞	33⅝	33⅞	+⅛
31½	26½	Beckman In	0.44	1.5	17	772	30⅝	30	30¼	+¼
63¾	48	BectnD	0.82	1.3	17	1148	u63½	62¾	62⅞	-⅜
6¾	5⅛	BeldProp	0.42	6.3	15	77	6⅝	6½	6⅝	+¼
61⅞	48⅜	BellAtl	2.80	4.6	16	6462	61¾	61	61⅜	-⅜
25⅝	17¾	Bell In	0.40	1.8	15	68	21⅞	21½	21⅞	+¼

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Continued on next page

4 pm close September 29

NYSE COMPOSITE PRICES

AMEX COMPOSITE PRICES

4 pm close September 29

NASDAQ NATIONAL MARKET

4 pm close September 29

FT GUIDE TO THE WEEK

MONDAY 2

EU foreign ministers meet

One of the main topics for European Union foreign ministers at their two-day meeting in Luxembourg will be how the US and EU can deepen and strengthen their relationship. Plans include removing remaining trade barriers and forging closer political co-operation.

Hong Kong talks in London

China's foreign minister, Qian Qichen arrives in London for talks with his opposite number Malcolm Rifkind. Discussions are expected to centre on how best to achieve co-operation between the Hong Kong government and Chinese representatives in the run-up to the handover of sovereignty in mid-1997.

OECD reports on Russia

The Organisation for Economic Co-operation and Development releases its first survey on Russia. The report is expected to conclude that if this year's macro-economic stabilisation programme is successful, rapid growth could ensue.

US politics and judiciary

Congress is in recess all week for a combination of the Jewish holiday of Yom Kippur (on Wednesday) and Columbus Day (on Oct 9). The Supreme Court's term begins today, initially without chief justice William Rehnquist, who underwent back surgery last week.

Verdict on Kenyan activists

The magistrate presiding in the armed robbery case against Kenyan dissident Koigi Wa Wamwere and his three co-accused is due to deliver his verdict, after a week's postponement. Koigi, who faces death by hanging if found guilty of staging a raid on a police station in 1993, is regarded as a prisoner of conscience by Amnesty International.

UK politics

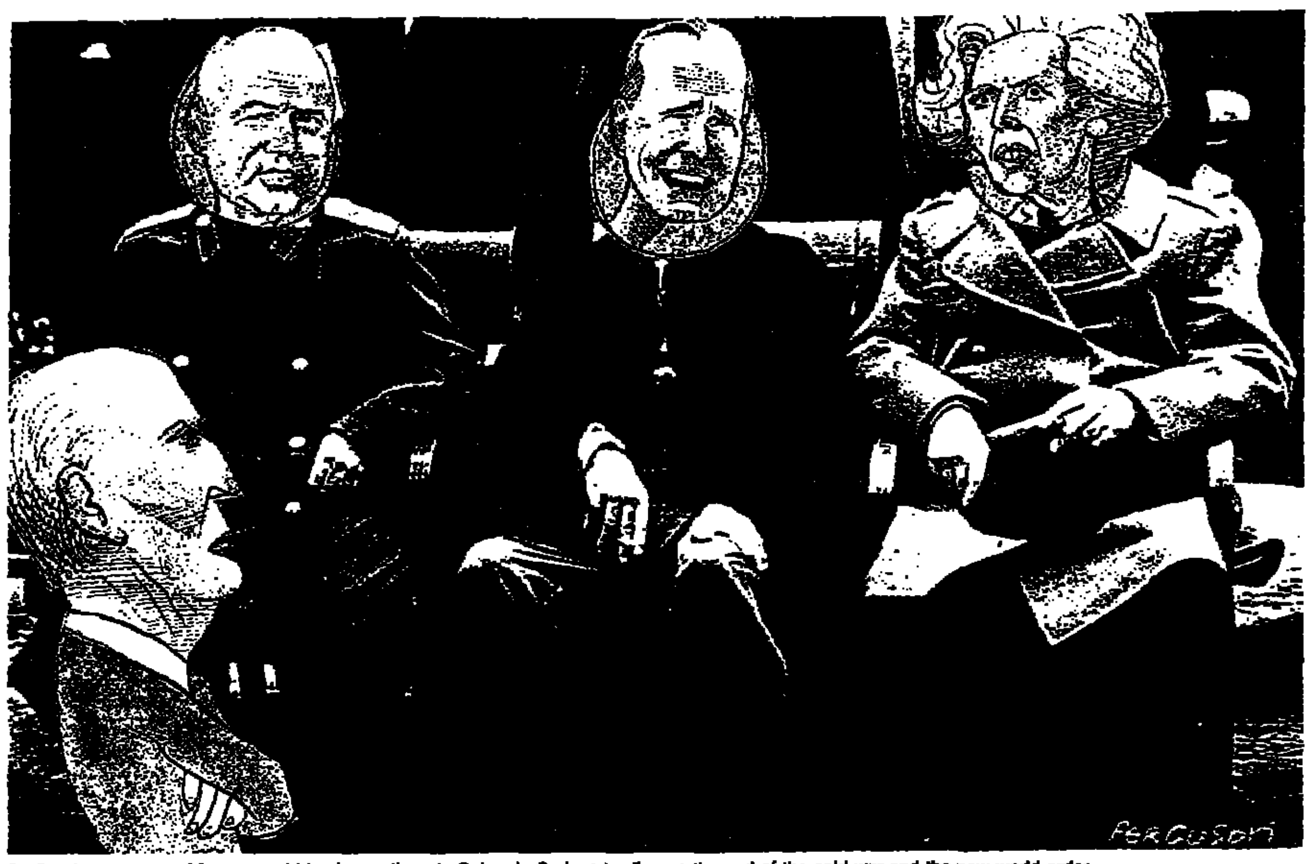
Britain's opposition Labour Party opens its annual conference in the south coast resort of Brighton (to Oct 6). Simmering left-wing criticism of party leader Tony Blair's moderate "new Labour" is expected to come to a head.

FT Surveys

Albania and The Philippines.

Holidays

Botswana, China, India, Nigeria. Most Australian states celebrate Labor Day.



On Sunday, a group of former world leaders gathers in Colorado Springs to discuss the end of the cold war and the new world order

TUESDAY 3

Belgium faces tough budget

Belgium's determination to participate in a European single currency comes under close scrutiny as Jean-Luc Dehaene, prime minster, unveils what is expected to be a tough budget for 1996. Analysts believe the government needs to slash spending by at least BFr100bn ($3.3bn) if Belgium is to reduce its budget deficit from 4.5 per cent to the 3 per cent laid down in the Maastricht treaty.

Germany marks Unity Day

The fifth anniversary of reunification sees a growing consensus that the two parts of Germany are slowly coming together, despite high unemployment in the east – 10 per cent among men, 19 per cent among women – and the high tax burden required to finance unification. Western Germany still transfers in excess of DM160bn ($109bn) a year to the eastern states.

Chernomyrdin visits Canada

Russia's prime minister, Victor Chernomyrdin, is scheduled to set off on a four-day visit to Canada. He is expected to discuss areas of economic co-operation between the two northern countries.

Mr Chernomyrdin, who is also the leader of a newly formed political party which is competing in parliamentary elections in December, is also expected to use the trip to highlight his domestic image as a world statesman.

Telecom 95

The world telecommunications industry's four-yearly exhibition and conference, organised by the International Telecommunications Union, opens in Geneva, Switzerland (to Oct 11). Nearly 1,000 companies will be exhibiting the latest in telecoms technology. In addition, about 100 ministers and 150 directors-general are expected to attend high-level discussions.

Commonwealth debt talks

Commonwealth finance ministers meet in Kingston, Jamaica, over three days to discuss the debt problems of developing countries and how the resources of institutions such as the International Monetary Fund can be better used. They will study proposals to write off debt to the poorest countries, and several will argue that international institutions such as the Fund and World Bank, be allowed to reschedule debts as bilateral and commercial creditors now do.

US baseball play-offs

Major league baseball play-offs begin in their new, bloated format which increases the number of teams from four to eight and the number of rounds from two to three. For the first time, teams other than the divisional winners take part.

FT Surveys

International Telecommunications.

Holidays

Bangladesh, China, Germany (Unity Day), Honduras, India, Israel, South Korea.

WEDNESDAY 4

World economic outlook

The International Monetary Fund publishes the latest edition of its twice-annual World Economic Outlook in Washington, DC, in the run-up to the organisation's annual meeting.

The draft edition contained a big downgrade of the growth forecast for Japan, which the yen's subsequent weakness is expected to have partly reversed.

Decision on Greek shipyard

The European Commission is due to decide on the future of Hellenic Shipyards, the loss-making shipbuilder which was supposed to be privatised or shut down. The Greek government wants the yard to remain under state control, but proposes to sell a 49 per cent stake to the workers.

Saleroom

Collectors of early computers should be out in force at Christie's South Kensington, when a part of the Difference Engine No 1, a prototype computer designed in the 1820s by Charles Babbage, the father of the computer, comes under the hammer. Although assembled 50 years later by Babbage's son, this rare precursor of the modern age is expected to attract bids in excess of £50,000 ($77,500).

FT Surveys

Review of Information Technology.

Holidays

Israel (Yom Kippur).

THURSDAY 5

Nato defence ministers meet

Nato defence ministers gather informally in Williamsburg, Virginia, to discuss the future of the alliance (to Oct 6). Nato's probable role as the co-ordinator of a peace-implementation force in Bosnia is likely to dominate the agenda, along with Nato expansion into eastern Europe.

EU social affairs council

The meeting in Luxembourg will be dominated by equal opportunity issues. It will open with a televised debate – the first at a social affairs council – on the women's conference in Beijing, attended by Padraig Flynn, commissioner for social affairs. Ministers are expected to agree a resolution on promoting positive images of women in the media and advertising.

Taiwan holds manoeuvres

Taiwanese military exercises today and on national day on October 10 are a show of strength in the face of Chinese warnings of attack should Taiwan declare independence. Among armaments on display at the scheduled manoeuvres, called the Huahsing exercises, will be US-made E-2T early warning aircraft delivered in September, which substantially boost Taiwan's defensive capabilities.

In July and August, China held two series of guided missile tests in the sea, 85 miles north of Taiwan, in what was seen as a menacing gesture towards the island.

Greek-Macedonian relations

Macedonia's parliament is expected to approve a new flag, substituting a red-and-gold sunrise design for the star-burst symbol that annoyed Greece. In return, Greece will lift its trade blockade of the former Yugoslav republic, under a UN-sponsored agreement.

Saleroom

Sotheby's biggest sale this century starts at the Neues Schloss, a castle on a hill overlooking Baden-Baden, south-west Germany. The 6,000 lots, comprising 26,000 objects, are the property of the Margrave of Baden. Ranging from Gothic furniture to family portraits, and embracing antlers and antique arms, the 15-day auction should raise more than DM30m ($20m) to help pay off the family's debts. All the finest objects, including the library, have already been sold to the state government of Baden-Württemberg.

FT Surveys

Indian state of Karnataka.

Holidays

Macau, Portugal.

FRIDAY 6

Telecoms trade talks

World Trade Organisation talks on liberalising basic telecommunications should be given a push by today's meeting of senior officials in Geneva. The 41 nations taking part are due to wrap up the talks by April next year.

Dominique in the lions' den

Dominique Girard, the French ambassador to Australia, addresses a Foreign Correspondents' Association lunch in Sydney. Mr Girard has weathered much of the Australian anger over France's decision to resume nuclear testing in the South Pacific, and was recalled to Paris on one occasion when protest actions became particularly intense.

FT Surveys

The World Economy.

Holidays

Egypt, Syria.

SATURDAY 7

Group of Seven meets

Finance ministers from the Group of Seven leading industrial countries meet in Washington ahead of the annual meetings of the International Monetary Fund and the World Bank. The markets will be on the look-out for evidence that the G7 wants the US dollar to strengthen further, having achieved some of the "orderly reversal" it looked for in April.

Ivory Coast campaign starts

Campaigning begins for a presidential election on October 22. The run-up has been marred by anti-government protests against an electoral law disenfranchising Ivorians with foreign parentage, who are a large part of the population. They include Alassane Ouattara, a former prime minister, who was potentially the main threat to president Konan-Bedie. Since the new law, Ouattara, a deputy managing director at the IMF, has confirmed that he will not stand and most opposition groups threaten to boycott the poll.

FT Surveys

Guide to Eating Out in London (UK only).

SUNDAY 8

IMF committee meets

The International Monetary Fund's policy-making interim committee meets in Washington. It will discuss international statistical standards, multilateral debt, and ways to respond to crises such as that which overwhelmed Mexico at the turn of the year.

Old-timers' summit

Former US president George Bush hosts a two-day fund-raising "old-timers' summit" of former world leaders in Colorado Springs, to discuss the end of the cold war and its legacy. Former leaders who will consider a "A World Transformed" include Mikhail Gorbachev of Russia, Britain's Margaret Thatcher, François Mitterrand of France, and Canada's Brian Mulroney. 100 tickets for the public have been offered at $5,000 each. Proceeds will benefit the George Bush Presidential Library Foundation and the Washington-based Forum for International Policy.

Compiled by Patrick Stiles.
Fax: (+44) (0)171 873 3194.

ECONOMIC DIARY

Other economic news

Monday: The UK purchasing managers' index will show whether output and raw material price growth continues to slow in manufacturing. US personal income growth may have eased in August. Spanish factory gate inflation is expected to have changed little in July.

Tuesday: Retail sales growth in Australia is thought to have halved between July and August. The UK's global trade deficit is expected to have widened significantly in July, while official reserves of gold and foreign exchange are thought to have continued growing slowly last month.

Wednesday: Mexican industrial production is forecast to have dropped by a tenth in the year to August. Most economists think Japan's current account surplus should have shrunk a little in August.

Thursday: Economists are divided as to whether western German unemployment rose or fell in September. Growth in Italy is thought to have slowed in the second quarter.

Friday: British manufacturing output is predicted to have picked up a little in August after July's unexpectedly sharp drop. Non-farm employment growth in the US is expected to have slowed last month.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	US	Aug personal income	0.1%	0.7%
Oct 2	US	Aug personal consumer expenditure	0.6%	0.2%
	US	Sep Nat Ass purchasing managers	50%	48.9%
	US	Aug construction spending	0.6%	2%
	US	Sep domestic auto sales	7.5m	8.1m
	US	Sep domestic light truck sales	5.7m	5.7m
	Japan	Sep auto sales**	-	0.4%
	Japan	Aug Bank Japan corp serv prices**	-	-0.8%
	Japan	Sep forex reserves*	-	5.1%
	UK	Sep M0*	-	0.7%
	UK	Sep M0**	-	6.1%
Tue	US	Johnson Redbook, w/e Sept 30	-	1.3%
Oct 3	Japan	Sep trade balance, first 20 days	-	$6.0bn
	UK	Aug final money data	-	N/A
	UK	Aug consumer credit	£610m	£701
	UK	July visible trade (global)	-£1,100m	-£868m
	UK	Sep official reserves	£50m	£66m
Wed	US	Aug leading indicators	0.2%	-0.2%
Oct 4	US	Aug factory orders	2.8%	-1.1%
	US	Aug factory inventories	-	0.6%
	Japan	Aug current a/c (IMF)	$6.3bn	$6.2bn
	Japan	Aug trade balance (IMF)	-	$8.8bn
	Japan	Aug foreign investment	-	$15.1bn
	Italy	Jul EU trade balance	L3.0Tr	L3.98Tr
	Canada	Aug building permits*	2%	2.6%
Thur	US	Initital claims w/e Sep 30	345,000	335,000
Oct 5	US	State benefits w/e Sep 23	-	2.65m
	US	Aug home completions	-	1.34m
	Germany	Jul employment, West†	-6,500	-13,000
	Germany	Sep vacancies, West	-	-6,000
	UK	Aug housing starts 3m/3m	-	-2%
Fri	US	Sep non-farm payrolls	150,000	249,000
Oct 6	US	Sep manufacturing payrolls	10,000	12,000
	US	Sep hourly earnings	-	-0.2%
	US	Sep average workweek	-	34.4
	US	Sep unemployment rate	5.6%	5.6%
	US	Aug wholesale trade	-	-0.7%
	US	Aug consumer credit	$10bn	$8.8bn
	Japan	Aug housing starts**	-9.5%	-11.2%
	Japan	Aug construction starts**	-	-10.7%
	UK	Aug manufacturing output*	0.4%	-0.4%
	UK	Aug manufacturing output**	0.9%	1.4%
	UK	Aug industrial production*	0.3%	0.3%
	UK	Aug industrial production**	1.0%	1.7%
During the week...				
	Germany	Jul trade balance	DM6.5bn	DM8.5bn
	Germany	Jul current a/c	-DM4.0bn	-DM0.9bn
	Germany	Aug industrial production, West*	-2%	4%
	Germany	Aug manufacturing output, West*	-2%	4.3%

*month on month, **year on year, †seasonally adjusted. *Statistics, courtesy MMS International.*

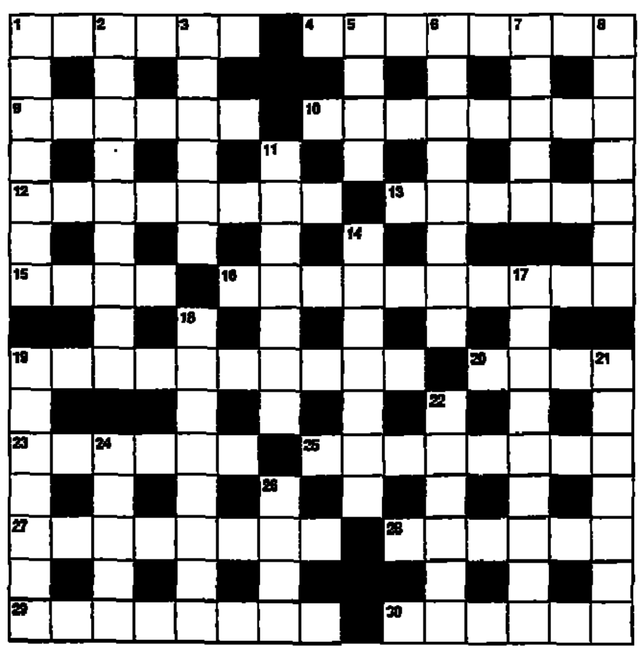
MONDAY PRIZE CROSSWORD

No.8,881 Set by DANTE

A prize of a Pelikan New Classic 380 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday October 12, marked Monday Crossword 8,881 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday October 16. Please allow 28 days for delivery of prizes.

Name..

Address..



ACROSS

1 Very accurate spinners brought back on (4-2)
4 Boarding establishments? (8)
9 One club to beat (6)
10 Oriental ball (8)
12 Carry a gun with sleeves rolled up, we hear (4,4)
13 Things to be done in company (6)
15 System for better transport (4)
16 Spanner used by motorists (10)
19 Their husbands are much overrated (10)
20 Jacob's brother comes from eastern USA (4)
23 Resolve to settle (6)
25 Goes for profits (8)
27 Rode around the circus giving commands (8)
28 Teas one's prepared for the rest of the afternoon (6)
29 Song composed about the present time (8)
30 Animal hunt (6)

DOWN

1 Fire bar is an old piece of brass (7)
2 One who used to teach painting (3,6)
3 A prose version of musical performances (6)
5 Yearn for each other (4)
6 Controlling factors (8)
7 Sole member of the citrus family (5)
8 Auntie's sort of curvaceous (7)
11 Dissolute, but I'm getting the message (7)
14 Tried so madly to become newspapermen (7)
17 Princess, poet or chemist (9)
18 Duck à l'orange? (8)
19 Boring outside broadcast (7)
21 Vulgar person for the high jump (7)
22 Writer making bad start amid outcries (6)
24 Cried pitifully for a drink (5)
26 The girl I get in the finish (4)

Winners 8,869

J. East, Wyfold, Berkshire
Mrs H. Bailey, Snape, Suffolk
Mrs H. Bray, Welwyn Garden City, Herts
D. Harris, London WC1
B.J. Mehew, Harlow, Essex
J.V. Tiller, Langley Vale, Surrey

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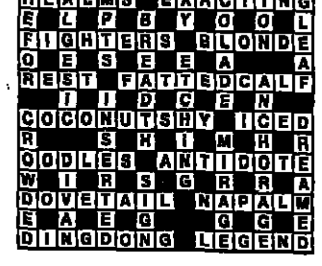

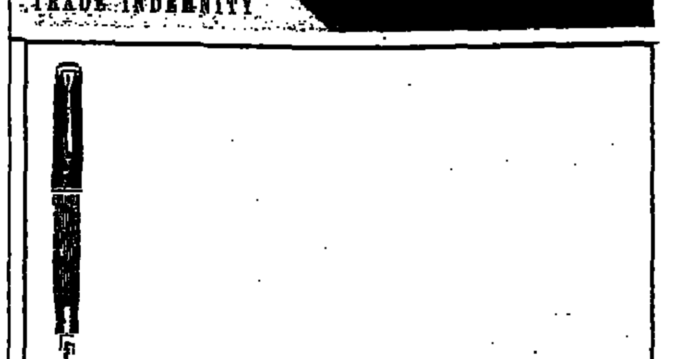

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THE PHILIPPINES

Asian Tiger in hard training

The formerly sleepy islands are confounding the critics. Edward Luce reports

Something dramatic has happened to the Philippines in the last two years. A country once considered a joke among dynamos, now boasts the world's second fastest growing emerging stock market. Property prices in Manila's business district, which only six years ago was held to ransom in a bloody coup attempt, have overtaken prime office prices in Asian Tiger capitals such as Kuala Lumpur and Bangkok. And Japanese investors, who once viewed the Philippines as little more than a banana republic, are queueing up to register projects with the Board of Investments.

The euphoria is understandable. But, as demonstrated by the public reaction in March to the execution in Singapore of a Filipina maid for double murder, emotions can get a little out of hand. Two years of GNP growth above 5 per cent, the reduction of inflation to single digits and the country's graduation from being "severely indebted" to one which issues three-year bills on the international debt markets is a significant set of achievements. But to suggest, as conventional wisdom does in the Philippines, that it is a small step from here to achieving South Korean growth rates, is to stretch credulity.

To put it into perspective: if the Philippines reaches what is believed to be its upper limit of an annual 8 per cent sustainable GNP growth rate, it would take two decades for the country's average per capita income to reach the level Thailand is at today. Under this best-case scenario, Filipinos would attain 1995 South Korean living standards some time in the middle of the next century.

Despite the pressure of overblown public expectations, the administration of Fidel Ramos has proceeded cautiously since its resounding victory at the congressional elections last May. Coalition parties supporting the administration won 9 of the 12 nationally elected senate seats being contested, and well over half the 204 house of representative seats. The results were seen as an overwhelming endorsement of the Ramos administration's three-year reform programme.

President Ramos, who has less than three years remaining of his six-year term, used the occasion of the opening of the new congress on July 24 to urge an acceleration of the economic reform process. The president asked the new legislature to complete the liberalisation measures enacted in the first half of his term, and to grant the executive emergency powers needed to reform the notoriously corrupt public sector. The president also pointedly asked the newly elected politicians to take strong action against nepotism among elected officials.

The president's emphasis on political and public sector reform reflects the fact that there is little economic deregulation left to accomplish. Between 1992 and 1995 the Philippines privatised almost all state assets, including military land and much of the country's power generation system.

At the same time foreign investment restrictions, including the "negative C" list of sectors debarred to overseas owners, were almost all scrapped, with the notable exception of broadcasting and media. Import barriers were slashed with the objective of reaching a unified 5 per cent tariff rate on all goods by 2004. The central bank was made independent of day-to-day government interference in 1993. The banking system as a whole has been opened up to foreign competition with the licensing of 10 foreign banks last February.

Few macroeconomic and fiscal reforms are therefore left in the pipeline. What remains – the privatisation of Manila's water system and the national power corporation; the opening up of the mutual fund sector to foreign ownership; the modernisation of the country's capital markets; legislation to broaden the tax base; and the deregulation of the oil sector – is scheduled for enactment in the next 18 months.

This leaves the administration with a problem. Almost all the textbook moves recommended by the International Monetary Fund are in place. The Philippine economy is one of the most liberalised in Asia. Yet, economic growth, as shown by the first-half figures of a 5.2 per cent rise of GNP in 1995, does not seem to be in any great hurry. Some economists, including, privately, several key international economists, are increasingly worried that the Philippines has reached a structural growth limit of between 5 and 6 per cent a year.

What, then, is preventing the Philippine economy from reaching Tiger growth rates? One of the vital structural bottlenecks impeding the country's growth potential is the Philippines' chronically underfunded public infrastructure. In spite of having a fraction of the private car ownership levels of economies such as Thailand and Malaysia, Manila's crumbling roads are almost as clogged as Bangkok's. Outside Manila, very little decent infrastructure exists at all.

The country's leaky water system, which President Ramos has recently identified as an urgent problem, has constrained growth at the booming Mactan export zone in Cebu and industrial capacity elsewhere.

Another structural limit to growth is the Philippines' inefficient public sector. The President's request for emergency powers – which have not yet been granted - to streamline it, has a down side. With unemployment touching 10 per cent and underemployment more like 20 per cent, there is strong pressure on the Malacanang Palace to leave public sector payrolls intact.

The thorny task of reforming a judicial system which on occasion appears to specialise in obfuscating otherwise straightforward laws, is another headache which will test the president's last two years in office.

The president, whose attempts so far at streamlining the judiciary have met with limited success, told the Financial Times it would be a priority of his remaining tenure: "The people clamour for a reform of the mechanism of administration of justice," he said. Reform of the law enforcement agencies, of which there are now 35, would also be high on the agenda he said.

In a poll conducted in August by the Makati business club, the Philippines' most influential private sector forum, 96 per cent of businesses said corruption in the police force and judiciary was their main worry. Another 94 per cent cited Manila's worsening traffic situation. No other concern came close.

Roberto Romulo, president of the Philippine Long Distance Telephone Company, who resigned as foreign secretary in May to carry the can for Manila's failure to prevent the Singapore execution of the Filipina, summed up the business sector's frustration in a recent speech to the club.

"The private sector is all too familiar with the unseemly side of people in government – the inability to deal with corruption, the marked absence of urgency ... indeed a culture that rewards incompetence and discourages talent," he said.

In spite of Mr Romulo's criticisms, however, the Philippine private sector is showing robust signs of growth. Recent figures show net profits at the country's top 5,000 corporations rose by 60 per cent to 198bn pesos (£4.68bn) in 1994 and comparable rates are expected this year.

The 30 per cent growth of exports to $9.5bn (£5.9bn) in the first seven months of this year, accompanied by an equally impressive leap in foreign direct investment in the country's eight special economic zones, suggests the underlying economy is quite capable of emulating the private sector's performance elsewhere in south-Asia.

"What people are beginning to realise is that the Philippines is a potentially big market [67m] which has more taste for foreign consumer goods than other regional economies," said Dr Peter Zuellig, CEO of the Zuellig Group. "Look at Italy. Public sector inefficiency did not prevent the private sector from showing its entrepreneurial side. The Philippines is no different."

The fact that for the first time in Philippine history there is now a solid consensus in favour of an open economy and further economic deregulation suggests that radical public sector reform must eventually be put into practice. The question is when.

All eyes are now on the Ramos administration to see whether it shows determination in confronting these structural problems or whether political convenience will dictate a more leisurely agenda until 1998. The hope is that the goods will be delivered sooner rather than later.

A helicopter soars over Makati, home to the Philippines second bourse. The country can boast of significant achievements in the last two years

Picture: Patrick Magalshi Lucero

IN THIS SURVEY

Editorial production: Heather Parker

■ **Politics:** The fragility of the democracy troubles business, writes **Edward Luce**

Stability under question

The ability of the state to deliver key reforms is of some concern

On a recent visit to the Philippines a group of foreign water companies were asked what would be the biggest risk of investing in this country. The surprise answer, considering all that has happened in the last three years, was: "political stability".

Enough progress has been made since Fidel Ramos was elected president in 1992 to have put paid to any residual fears that the Philippines might revert to the coup-ridden era of the late 1980s. Indeed, most would agree that President Ramos' greatest achievement is to have forged what appears to be a solid nationwide consensus behind the administration's economic reform programme.

The congressional elections last May – where, it seemed, the more grey and technocratic the pro-government candidate was, the larger the vote of approval – appeared to confirm the view that crowd-pullers such as "Bong Bong" Marcos, son of the late dictator, do not have the clout to upset the reform process.

Yet doubts about the stability of democracy still persist. One of the main worries is the question of the presidential succession in 1998. Under the 1987 constitution, President Fidel Ramos is permitted a maximum of one six-year term. The clause was inserted to prevent another Ferdinand Marcos from getting a stranglehold.

Understandable as the intention may be, the fixed limit constraint also has its downside. As one political commentator said: "If you get a bad president, six years is too long. But if you get a good one six years is too short." Many, including leading business executives according to a recent survey, agree with the second half of that judgment.

The survey showed that the business community's number one concern was the poor quality of potential successors to the president. Of these, any mention of Vice President Joseph Estrada, former B-movie star and Marcos supporter, is guaranteed to send shudders down the private sector's spine. Mr Estrada, or "Erap" as he is popularly known, has made no secret of his presidential ambitions.

*Appointed head of the Presidential Anti-Crime Commission in 1992 to co-ordinate the clampdown on kidnappings of Filipino-Chinese businessmen and Manila's bank robbery epidemic, Mr Estrada is widely judged to have failed to improve the efficiency of the police force.

Erap's other objective – to *streamline and rationalise* the plethora of overlapping law-enforcement bodies – has met with similar reviews. In fact, the creation of the PACC *seems to have merely added* one more quango to an alphabet soup of competing police bodies. Added to this, the PACC has come under increasing fire for its alleged involvement in extra-judicial executions. Yet, if opinion polls are to be believed, Mr Estrada's popularity still rides high.

Scaffolding around a sculpure of the late dictator Ferdinand Marcos: a comment on the fragility of democracy

The spectre of an Erap presidency, therefore, is often cited as a good reason to change the constitution. President Ramos, who stood for a party in 1992 which campaigned openly for a shift to a parliamentary system, recently ruled out any possibility of extending his tenure beyond 1998. "If we wasted goodwill on political intrigue [to change the constitution], we would not be able to maximise our efforts on the reforms we need to push through," he warned.

But politicians close to the Malacanang Palace, including *Mr Jo de Venecia, speaker of* the house of representatives, have campaigned for a shift to a parliamentary constitution. *Under one frequently cited* scenario, President Ramos would remain aloof from the process but stand for a seat at the last moment. He would then slide effortlessly into the prime minister's slot.

In recent weeks, Mr De Venecia has agreed to the president's request that he "freeze" the constitutional debate to allow Congress to push through key economic reform. Mr De Venecia however added that the campaign would renew some time next year.

The hitch, though, with a *change to a parliamentary* form of government, is that opinion polls show an overwhelming majority are opposed to what some have dubbed a "constitutional coup". Memories of 1973, when President Marcos engineered a shift to a parliamentary system to perpetuate his hold on power, remain prominent.

*The second option – a constitutional amendment to allow the president to run for a second term lasting four years – has also been ruled out by President Ramos, who says his sole desire is to monopolise the golf course after 1998. Whether he changes his mind or not, commentators are unanimous that the debate on constitutional change will continue.

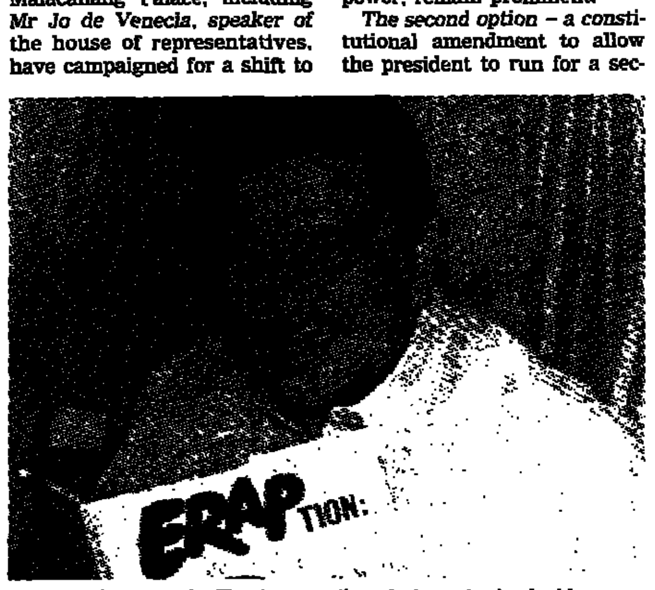
The other, near unanimous, worry cited by foreign investors is the question mark over the government's ability to deliver some of the key reforms needed to keep the economic momentum on track. The administration's recent climb-down over a petrol price *increase is a case in point.*

The government has committed itself by 1997 to scrapping the oil price stabilisation fund which keeps prices well below market levels. On two occasions, however, last July and in January 1994, the energy regulatory board pulled back from imposing petrol price rises in the face of widespread *popular opposition.* The result is that petrol prices are roughly 50 per cent below world levels while the buffet fund is 4bn pesos in deficit.

Political susceptibility to the old forces of economic nationalism has threatened to derail other important reforms, including moves to permit foreigners to own land other than condominium units, efforts to reduce punitive tariff barriers on agricultural imports, and attempts at wide-ranging review of the country's security relationship with the US.

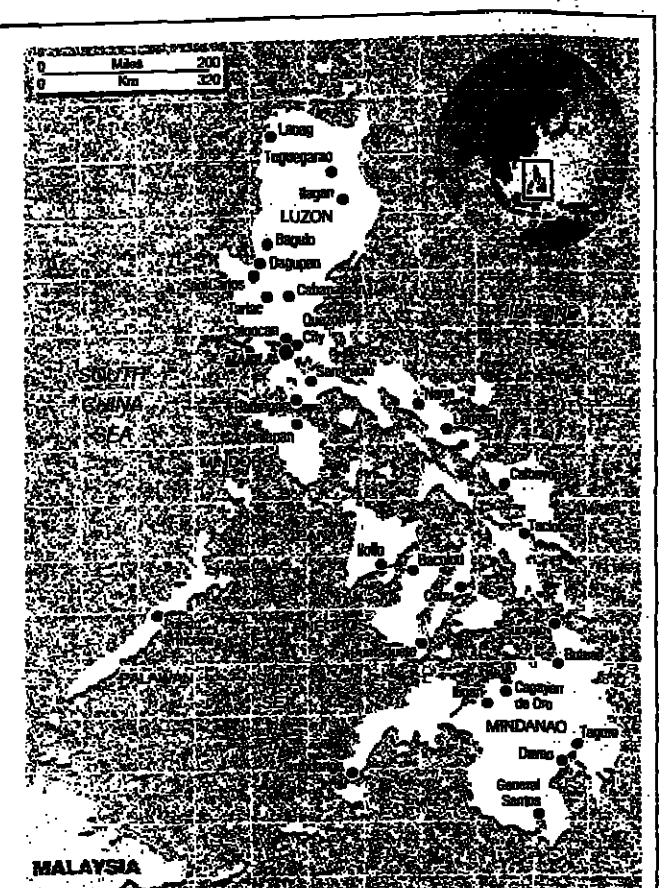
The likelihood that jockeying around emerging presidential candidates in the build-up to 1998 will increase the tendency to postpone unpopular decisions before the polls, suggests a diminishing share of attention will be devoted to the long-term reforms required by the economy.

President Ramos hinted broadly *in his state-of-the-nation* address in July that the window of legislative opportunity will narrow relatively early on in the two-and-a-half years remaining to the 10th congress. Urgency, therefore, remains the name of the game.



Vice president Estrada: 'Erap' causes the private sector to shudder

PHILIPPINES
Key facts and indicators



■ Population

Growth in millions (mid-year)

1990	1991	1992	1993	1994
61.48	62.87	64.26	65.67	67.03

Main towns
Population in 000s, 1990

Manila (capital)	1,601
Quezon City	1,670
Davao	850
Kalookan	763
Cebu	610
Makati	453
Zamboanga	442

■ Language

Filipino (based on Tagalog) is the national language, but practically all business and politics is conducted in English. Spanish is less commonly spoken than previously.

■ Ethnic Mix

Ethnic makeup: predominantly Malay. Others include Chinese and North Americans.

■ Religion

Roman Catholic (85 per cent), Moslem (5 per cent), Protestant (4 per cent), and 4 per cent who belong to a Catholic sect which does not recognise the authority of the Holy See.

■ Currency

Currency: Peso (PP) divided into 100 centavos.

Import and export of local currency up to PP500 is allowed. No restrictions on foreign currency, but amounts over $3,000 must be declared on arrival and only up to the declared amount can be exported.

International credit cards are widely accepted in most big establishments throughout big cities. It is advisable to carry a sufficient amount of local currency when travelling to provinces.

Travellers cheques and major foreign currencies may be cashed in large commercial banks and central bank dealers in Metro Manila. Also accepted in most hotels, restaurants and shops. Always use authorised money changers or banks. Outside the capital, there is a shortage of facilities for changing foreign currency and rates may get progressively lower further from the city.

■ Visa requirements

Visas are issued on regular passports. No visa is required for transit and bona fide tourists (including businessmen) whose stay does not exceed 21 days, provided they have passports, valid for at least one year, and return tickets. This does not apply to nationals of countries with which the Philippines has no diplomatic relations, and stateless people. Nationals of Hong Kong, Peking and Taipei are allowed to visit for seven days, extendable to not more than 14 days, provided that they have valid passports and confirmed onward journeys.

■ Health Control

Cholera: Vaccination recommended if arriving from an infected area.
Malaria: Risk exists all year below 600m, except in urban areas and the surrounding islands.
Typhoid: Vaccination recommended if arriving from an infected area.
Yellow fever: Vaccination required if arriving within six days, from or via an infected area.
Other: Polio and tetanus vaccination recommended if arriving from an infected area.

■ Working hours

Business hours:
Government offices: Usually in two shifts covering 0800-1800.
Business houses: Vary, but generally 0830-1730 and 1900-1800 Monday-Friday, half-day Saturday
Banks: 0900-1500 Monday-Friday. Automated banking systems exist (24 hours)
Shops: 0900-1900 Monday-Saturday. Most tourist shops open on Sundays.

■ Public holidays

January 1 (New Year's Day), April 9 (Araw Ng Kagitingan or Hero's Day), May 1 (Labour Day), June 12 (Independence Day), November 1 (All Saints' Day), November 30 (Bonifacio Day), December 25 (Christmas Day), December 30 (Rizal Day), December 31.

■ Climate

Tropical. The Philippines has two distinct seasons. The dry season is from November to May when the temperature may reach 32C. The wet season is from June to October and monsoon rains are expected during these months. From November to February, temperatures range between 21C and 25C.

■ Time

Eight hours ahead of GMT.

■ Ministries

Office of the President: Presidential Guest House, Malacanang Palace Compound, J.P. Laurel St, San Miguel, Metro Manila; tel. (2) 5212301; telex 40213; fax (2) 7421641.
Department of Education, Culture and Sports: University of Life Bldg, Meralco Ave, Pasig, 1600 Metro Manila; tel. (2) 6321361; fax (2) 6321371.
Department of the Environment and Natural Resources: DENR Bldg, Visayas Ave, Diliman, Quezon City, Metro Manila; tel. (2) 976671.
Department of Finance: DoF Bldg, Valencia Circle, Ermita, Metro Manila; tel. (2) 595262; fax (2)5219495.
Department of Foreign Affairs: 2330 Roxas Blvd, Pasay City, Metro Manila; tel. (2) 8344000; fax (2) 8320683.
Department of Public Works and Highways: DPWH Bldg, Bonifacio Drive, Port Area, Metro Manila; tel. (2) 482011; telex 2335; fax (2) 401683.
Department of Science and Technology: Gen. Santos Ave, Bicutan, Taguig, Metro Manila; tel. (2) 8238939; fax (2) 8238937.
Department of Trade and Industry: Trade and Industry Bldg, 361 Gil J. Puyat Ave Ext., POB 2303. Makati, 3117 Metro Manila; tel. (2) 8185701; telex 14830; fax (2) 856487.
Department of Transportation and Communications: Philcomcen Bldg, Ortigas Ave, Pasig, Metro Manila; tel. (2) 7213781; fax (2) 6329985.
National Economic Development Authority (Neda-Department of Economic Planning): Neda Bldg, Amber Ave, Pasig, Metro Manila; tel. (2) 6310945; telex 29058; fax (2) 6313747.
Philippine Information Agency (Office of the Press Secretary): Visayas Ave. Diliman, Quezon City, Metro Manila; tel. (2) 9227477.
European Chamber of Commerce of the Philippines: King's Court II Bldg, 5th Floor, 2129 Don Chino Roces Ave, Makati, Metro Manila; tel. (2) 8112234; telex 66045; fax (2) 8152688; f. 1978; 800 mems.

■ Key facts

Area	300,000 sq km
Population	67.03 million
Head of state	Fidel Ramos
Currency	Philippine Peso
Average exchange rate	1994 $1=P 26.44[1]
	1995 $1=P 25.57

ECONOMY	1994	1995[2]
Total GDP (real,Pm)	765	806
Real GDP growth (%)	4.3	5.4
GDP per head (US$)	954	1,061
Annual % change in		
Consumer prices(%)	9.1	7.7
Industrial output (%)	6.1	6.6
Manufacturing output (%)	5.1	6.7
Agricultural output (%)	2.4	2.4
Services output (%)	3.8	5.9
Petroleum Production (b/d)	10,000	4,000
Unemployment (% workforce)	8.5	8.6
Total reserves minus gold ($m)	6,017	n/a
Total external debt ($ bn)	38.0	41.6
PSBR (% GDP)	1.1	0.8
Money growth (M1,%)	11.3	22.5
Stock mkt index (% growth)[3]	-12.8	-4.5
Current account balance ($m)	-3,002	-4,417
Merchandise Exports ($m)	13,430	16,559
Merchandise Imports ($m)	-21,232	-26,524
Trade balance ($m)	-7,802	-9,965

Main trading partners (%, 1994)[4]	Exports	Imports
USA	40.0	18.5
Japan	18.0	24.4
Hong Kong	5.5	5.2
Germany	5.0	n/a

(1) Average 1995 to date.
(2) Estimates. (3) End period, 1995 figures to date.
(4) Share of world trade.

Source: Economist Intelligence Unit, Datastream.

■ Business and social hints

Appointments must be made in advance. For business meetings, men should wear a lightweight or tropical suit and women a lightweight suit or equivalent. It is customary to shake hands on meeting and taking leave.

People with an academic or professional title, eg Senator, Director, etc, should be addressed by their title. Business cards to indicate academic or professional titles are exchanged after introduction. Business is usually conducted in English. Some executives speak Spanish. Visitors should be receptive to unfamiliar local customs.

A service charge is normally added to bills and gratuities are not necessary, but it is customary to leave small change. On social occasions, eg invitation to restaurants, punctuality is appreciated. Dress as for business meetings unless otherwise indicated.

Sources: Reuters, Statesman's Year-Book, EIV Country Report, Walden Country Reports, World of Information and others
Compiled by Peter Cheek

■ **The economy:** Spectre of inflation casts a shadow, writes **Edward Luce**

Bullish picture emerges overall

Relaxation of monetary policy, and budgetary strategy, give some cause for alarm

The Philippines is nearing the end of its third year of economic recovery after decades of boom-bust instability. The government and the International Monetary Fund believe the economy has broken the old cycle, and is on track for a period of sustained growth.

Evidence to support this *assessment is not difficult to* find. Gross national product grew by 5.1 per cent in 1994 and is projected to reach 6.5 per cent this year, although the 5.2 per cent registered in the first half suggests the final tally might be lower.

The economy's turnaround has been led by the private sector, which boosted net profits *by 60 per cent in 1994 to* 199.4bn pesos (£4.87bn) and increased net sales by 23 per cent to 1,400bn pesos. Robust business activity, led by the construction sector, real estate, textiles and electronics, is expected to continue.

Evidence of "reverse capital flight", higher net foreign portfolio investments and the continued growth of overseas worker remittances – around US$4bn (£2.5bn) – has combined to keep the balance of payments (counting short and *long term capital inflows)* in surplus, which was $1.4bn at the latest count in July. The inflow of overseas capital has boosted central bank reserves to above $8bn – or more than three months of imports.

The current account deficit (excluding long-term capital inflows and foreign portfolio investments) of 4.8 per cent of GNP in 1994 is expected to drop to below 4 per cent this year owing to a mini-export boom. Growing foreign, especially Japanese, investment in the country's export processing *zones has contributed to this* drive, through the re-export of overseas goods such as semi-conductors, car parts and audio equipment. An overwhelming proportion of the Philippines' import bill is capital equipment and raw materials to feed the growing industrial base.

Better economic growth, *underpinned by the* government's privatisation programme, has also fed into a higher savings rate which topped 20 per cent of GDP earlier this year. Lower interest rates, owing mainly to the surge of overseas capital inflows and the recent partial opening of the banking industry to foreign competition, has helped improve the domestic savings rate. Higher disposable incomes – the country broke through the $1,000 per capita earlier this year, while Manila *has reached* $2,500 – *have also* boosted savings.

The Philippine economy's overall direction is therefore highly encouraging. Several pitfalls remain, however, with the biggest question mark over inflation. A low inflation rate is seen as pivotal to the government's "Philippines 2000" economic reform programme, which aims for Newly Industrialising Country status by the turn of the century.

If inflation were to breach double digits again, the government's drive to boost the *savings rate and maintain low* interest rates would be in jeopardy. Indeed, there is mounting concern that the government's impatience to achieve higher growth rates has already led to an excessive relaxation of monetary policy.

At the first annual review of the IMF's three-year $684m credit programme in June, the government won the right to relax liquidity growth targets. This concession, extracted from a reluctant IMF team, allows broad money (M3) growth of 31 per cent a year. Several economists, however, have warned of the inflationary impact of the 40 per cent rise in broad money between March 1994 and March 1995.

The Philippine government argues liquidity growth was driven by "real demand" for money, implying that prices will not be affected, even *allowing* for the estimated 18-month time lag between monetary expansion and headline inflation. Inflation in August, however, touched the IMF's outer limit of 8.4 per cent significantly higher than the 5.8 per cent recorded at the start of 1995.

Concern has also been voiced over the government's budgetary strategy. Last year the Philippines recorded a budget surplus of 18bn pesos, the first surplus in over a decade. This year the surplus is expected to be 16bn pesos. Privatisation proceeds and lower debt repayments were behind the achievement. But, with the national power corporation and some of the government's 57 per cent share in the Philippine National Bank scheduled to be divested later this year, privatisation is running out of steam.

The department of finance recently drew up a tax reform package which it is hoped will generate the revenue to replace privatisation proceeds. By broadening the tax base on *both corporate and personal* income the new system is intended to reduce the incentive to evade taxes.

There are serious doubts, however, about the bureau of internal revenue's competence to implement the new tax band system if it is enacted in time for the next financial year. At the moment, the government estimates there is around 50bn to 60bn pesos in uncollected taxes, which is roughly three times 1994's budget surplus.

The judiciary's inability to convict one big tax evader has hampered the government's crackdown on tax fraud. The government's campaign to prosecute Lucio Tan, owner of Fortune Tobacco and Asia *Breweries, for* 26bn pesos ($1bn) in unpaid taxes appears to have lost momentum in a mire of judicial counterclaims. Other companies, most notably San Miguel, the brewery and consumer goods giant which contributes 6 per cent of the country's total tax revenues, have complained of paying a disproportionate share of the final take.

In the long term it is hoped the expansion of the salaried middle class and reforms to the public bureaucracy will improve efficiency in tax collection and public accounting. The government's widely acclaimed success in reducing overall foreign debt from over 130 per cent of GDP to 57 per cent has stemmed the drain of debt payments on public expenditure. Debt service payments as a proportion of GDP have halved to 15 per cent since 1998, although domestic liabilities combined with overseas debt payments still account for roughly 40 per cent of budget spending.

Trade policy: Reform which was once unthinkable is now a welcome reality, writes **Peter Montagnon**

Victory over protectionism

The aim is gradually to simplify the system so that by the end of the century most imports attract a tariff of 10 per cent or less

The protectionists were outnumbered.

That is how Julius Cesar Parreñas, of the Center for Research and Communication think-tank, explains the background to the sweeping tariff reform launched by President Fidel Ramos in July.

A few years ago such reform was unthinkable. The Philippines has a long tradition of protecting its larger industries behind high tariff walls. This is increasingly seen as one of the reasons for its slow growth and low living standards, rather than a benefit to the economy.

Like that of neighbouring Indonesia, the reform has been launched on a non-discriminatory most favoured nation (MFN) basis, which means the Philippines will not use it to extract reciprocal benefits from a trading partner. The country aims for a uniform tariff rate of just 5 per cent by the year 2004.

The starting point was August's cuts, of up to half in the rate on hundreds of products.

The new regime involves a vastly simplified four band scale which initially sets a top rate of 30 per cent for finished goods, such as washing machines and electronic products. The minimum is 3 per cent, for imported raw materials and capital goods.

The aim is gradually to simplify the system so that by the end of the century most imports attract a tariff of 10 per cent or less, according to Cielito Habito, chairman of the National Economic Development Authority.

Analysts such as Mr Parreñas describe the new system as a break with the past. Among the background factors, he says, are the fall of communism and changing attitudes in China and Vietnam. Both countries have introduced free market policies and are trying to attract foreign investment.

"This takes the wind out of the sails of the protectionist left," he says.

Moreover, advances in communications have encouraged companies to operate on a regional basis. If the Philippines wants to be part of the Asian production chain it must open its borders to intra-regional trade.

"The mindset has changed among our industrialists," says Rizalino Navarro, trade and industry minister. "Even our legislators have seen that the global competition strategy championed by President Ramos really is the way to go." The new regime should help attract foreign investment, he adds.

"We're basically bringing down the cost of doing business in the Philippines."

But the reform programme was not without its opponents. A number of groups vied for special treatment, with varying degrees of success. They included the petrochemicals sector, which claims protection on an infant industry basis, manufacturers of consumer durables, such as air conditioners and television sets, the automotive sector and the pulp and paper industry.

Several of these sectors are capital-intensive and urban based. Their price policies have a knock-on effect on the rest of the economy, where business is more labour intensive. So the political swing in favour of liberalisation also reflects the resentment among farmers at the prices they must pay for fertilisers, food packaging and refrigerated vans to transport their goods.

These will become cheaper as tariffs fall, helping compensate farmers for the cost of the commitment to liberalise the sugar and corn regime under the Uruguay Round farm agreement.

The impact on industries which will lose protection should not be too drastic. The Philippines already exports items such as air conditioners and television sets, so companies in these sectors can compete.

"I don't think they're going to close down or make a lot of adjustments," says Mr Parreñas. "I just think their profits are going to be reduced to decent levels."

Equally striking is the impact of the reform on regional trade. Exports have grown sharply under President Ramos' reforms. They have increased by over 30 per cent this year.

Last year exports to other countries in Asean were up by 80 per cent.

The tariff reform will make the Philippines a more attractive base from which to serve the Asean market, now swollen to 400m people by the addition of Vietnam.

Mr Navarro says the reform programme will form the base of the Philippines' eventual submission on trade liberalisation to the Asia-Pacific Economic Co-operation forum. Under current plans, members of that group are expected to deliver such projects by 1997, but the Philippines has already undercut the APEC process by making its plan on an MFN basis.

This pre-empts debate within the group over the extent to which concessions to non-member countries should be made on a reciprocal basis.

Similarly, the Philippines' programme may strengthen Asean's resolve to create a regional free trade area by 2003. Officials believe fewer products may be exempted from tariff reductions and, as support for free trade grows, even farm products may be put on the table.

Meanwhile, the Philippines' programme leaves room for negotiations with Asean partners about the speed of tariff cuts.

"After this move of ours," says Mr Habito, "other Asean countries will respond with more aggressive proposals. From where I stand, if that happens, we would be prepared to revisit this programme and accelerate it."

A worker grins under a load of sugar cane, but there is not much to smile about: farmers pay dearly for liberalisation of the sugar and corn regimes

Foreign policy: Search is on for closer regional ties. By **Peter Montagnon**

Moving closer to Asean

Despite recent disputes with Singapore and China, the Philippines is in conciliatory mood

This has been a turbulent year for diplomacy.

In February, the country became embroiled in an argument with Beijing after China established a naval installation on one of the disputed Spratly Islands inside the Philippines exclusion zone in the South China Sea. The Philippines is now spending $2bn (£1.2bn) to upgrade its armed forces.

Then came a bitter row with Singapore over the execution there of a Filipina maid, Flor Contemplacion, who had been accused of murder. That row cost Roberto Romulo his job as foreign secretary.

But it would be wrong to conclude that the Philippines is picking quarrels with its neighbours. On the contrary, the main thrust of foreign policy since US forces left in 1992 has been to replace dependence on Washington with closer regional ties.

Mr Romulo's desire to bring Burma, Cambodia and Laos closer to the Association of South-East Asian Nations, to which the Philippines belongs, was well known. Asean also includes Brunei, Indonesia, Malaysia, Singapore, Thailand and, since July, Vietnam.

That policy remains unchanged under his successor, Domingo Siazon, who believes economic integration is the key to better political relationships. "Because of the economic integration of these countries, the bonds that bind them will be much stronger than the forces which tend to split them," he says.

Vietnam's membership of Asean as not seen simply as helping to counterbalance China. Vietnam is too small to be effective for this, says Mr Siazon. The main advantage was that Vietnam increased the size of the market, and its membership would enhance the regional economy, and thereby ultimately strengthen security.

The Philippines, long left behind by the Asian economic miracle, is an unlikely champion of such an approach. But the focus on economic integration underlines the confidence in the domestic economy brought about by President Ramos' reforms.

It also suggests that the Philippines has realised it is vulnerable now the US military has left. "Its central location is good in a boom, but it is bad in times of conflict," says Julius Cesar Parrenas of the Center for Research and Communication.

Mr Siazon believes that China's increasing economic and military power will pose less of a security threat if China can be engaged economically. Economic co-operation through Asean is the key, he says, though he would like to see other countries involved, such as Japan and the US which are both members of the Asia Pacific Economic Co-operation group. "I would also like to see India in the loop," he says.

That still leaves the immediate disputes, however. The Contemplacion affair has left a nasty taste. Public opinion still casts her as an innocent victim who was framed. Senior officials are still fuming privately about the tone of Singapore's diplomatic notes at the time. But most accept that the incident was little more than a blip in relations.

The Spratly Islands issue is more intractable, though China has toned down its rhetoric on the issue and the two have reached a bilateral code of conduct for handling disputes. However, because Brunei, Malaysia, Taiwan and Vietnam also claim the oil-rich islands, the Philippines recognises that a multilateral solution is needed. To this end, it was part of the united front Asean presented at a meeting with China in Hangzhou this spring.

Manila is also seeking practical ways of easing the day-to-day strains between China and the Philippines. It has offered a "sister relationship", involving cultural, official and economic exchanges, between the Chinese island of Hainan and the Philippine province of Cebu. This is where the fishermen live who are, as Mr Siazon says, "the real people affected by the dispute on sovereignty".

The recent Asean meeting in Brunei appears to have made a modest advance. China agreed to discuss the Spratlys on the basis of international law, including the UN convention of the sea, as well as its historic claim. But it remains to be seen how far this was mere tactics. The law of the sea will not determine sovereignty, and China still insists that its claim is indisputable.

The Philippines' decision to re-arm suggests it wants a fall-back position if its conciliatory approach fails. Other countries in the region are also stepping up military spending, but few analysts believe the Philippines could impose a military solution.

"It would take us ages and a great deal more money than we really have," says one policy analyst. He believes the extra defence budget primarily reflects the need to build up the country's military after the withdrawal of US forces. "If anything, we took advantage of the Spratly situation to justify the spending," he says.

In the background is still the sense that the US is the Philippines' ultimate guarantor of security. There is uncertainty about this, because the overbearing presence of the US when it had bases in the Philippines made for uneasy relations between the two countries. But they have become closer since US forces left, and President Clinton and Mr Ramos have good rapport.

However, the main focus for the US is economic, as trade and investment increases. There is anyway little prospect of the Philippines offering Washington fresh military facilities. The Philippine Senate vote to let the base agreements lapse in 1992 reflected a public nationalism which remains to this day.

Nevertheless, Philippine officials still believe that, if the worst came to the worst, the US would react to a dispute over the Spratly Islands. "We didn't attempt to get Washington more involved in the Spratlys," says Mr Siazon. "It is involved and will be involved in any conflict involving a major sea lane."

Build Operate Transfer law: Manila shows the developing world the way, writes **Edward Luce**

Enlisting the private sector for public enterprise

Disputes have qualified BOT success, but the real test is yet to come as the state tackles Manila's growing water supply crisis

One of the few areas where the Philippines is considered more advanced than other emerging private sector funding of public infrastructure projects. Armed with the BOT (Build Operate Transfer) law, the Philippine government has successfully lured foreign and local companies to take on schemes traditionally managed by the state.

A recent study by the Asian Development Bank praised the Philippines for its radical approach to public sector development. But the report estimated that the Philippines still required more than US$50bn (£31bn) of spending on roads, water, electricity and irrigation over the next decade – a sum way beyond the government's means.

"The Philippines is now something of a role model for the rest of Asia," said John Taylor, a BOT expert at the ADB. "No hidden subsidies are provided [for BOT projects]. Funds are borrowed at internationally competitive rates and developers bear most of the project risk."

The most successful example of this was the solving of the power "brownout" crisis two years ago through fast track granting of licenses to foreign power companies. Companies such as Consolidated Electric Power Asia (Cepa), a subsidiary of Hopewell Holdings, were allowed to bypass normally lengthy bidding procedures to win contracts. Within months, Manila's power crisis had been solved and 6,000 MW of power put into the pipeline.

Under the recently revised BOT law, which has 9 variants including "rehabilitate operate transfer" and "build operate own", foreign companies can submit unsolicited bids to the government. The bid is then made public to give other companies a chance to come up with a more competitive proposal.

If a rival company improves on the first offer, then the original bidder is given the opportunity to match it.

According to Roberto De Ocampo, secretary of finance, the Philippines' new one-stop-shop BOT centre has already received 85 unsolicited proposals for a mixture of water, transport and power schemes this year. Successful bidders will be eligible for tax holidays, the right to import capital equipment duty free and government-backed foreign exchange guarantees.

The Philippine government's innovative approach to public sector development has been acclaimed. But the new BOT law has also come in for some criticism. "There's nothing wrong with the BOT law on paper," said an international economist. "But in practise it seems to be more trouble than was originally envisaged."

Torturous legal wrangling has delayed the approval of several public transport schemes in Manila for example. A proposed light railway transit line (LRT3), which would run along the city's main thoroughfare and is intended to ease traffic congestion, has been held up for years owing to disagreements between the government and the project's backers.

A dispute over the right to build commercial developments above the LRT's 15 stations, which, according to the LRT consortium, would guarantee reasonable profit margins, has blocked the way. Disagreements over ticket price escalation have also dogged the process.

"The difference between BOT projects on toll-roads and power, for example, is that the government is not able to guarantee road users will be willing to pay the going tariff rates," according to Mr Rahul Khullar at the ADB. "For power on the other hand, such risks do not exist. The government can simply pledge to buy a certain quota in advance."

Economists point out that there are few mass transit schemes in the industrialised world which have succeeded without large public subsidies. Even the world renowned Mass Transit Railway (MTR) in Hong Kong initially benefited from government write-offs.

A degree of optimism returned in August, however, when the Philippine government struck a deal with PT Citra, an Indonesian firm run by Mrs Siti Hardiyanti Rukmana, eldest daughter of President Suharto, on tariff escalation for a 18km elevated toll-road in Manila. The fate of the Manila "skyway", as it has been dubbed, is viewed as something of a litmus test for other mass transit schemes.

A dispute over another key BOT proposal, a 1,200 MW gas-fired power plant in Batangas, south of Manila, has also disturbed the calm in recent months. In a decision likely to end up in a lengthy judicial battle, the national power corporation ruled that Cepa's $1.54bn proposal was ineligible.

According to the government, Cepa's main partner, Mitsubishi Heavy Industries, has a licensing agreement with Westinghouse, the US engineering company, which allegedly overcharged the Philippine government on a nuclear power project in the 1980s. The Philippine government is suing Westinghouse for malpractice.

Cepa's lawyers deny the Westinghouse-Mitsubishi link and have threatened to sue the government unless it reverses the decision. Observers have noted that it was Cepa which played the leading private sector role to end the "brownout" crisis in 1993.

The Cepa dispute and nagging doubts over the viability of mass transit BOT projects in Manila, however, have not yet done serious damage to the credibility of the Philippines' BOT strategy. The government points out that mass transit schemes in Bangkok and elsewhere have been plagued by greater delays and bureaucratic in-fighting than their counterparts in Manila. It also points out that it allows profit margins of 17 to 25 per cent on power projects – significantly higher than the 12 per cent ceiling in China.

A test of the adaptability of the BOT law will come with the government's response to the growing water crisis. President Ramos was granted emergency powers last June to tackle Manila's chronic water shortfalls which will involve the eventual privatisation of the Manila water authority.

A growing queue of foreign companies has submitted or are drawing up unsolicited BOT water proposals. If the government can overcome popular opposition to foreign ownership of the water distribution system and the price rises privatisation will entail, then it will have proved that the ending of the power crisis in 1993 was not a flash in the pan.

■ **Foreign investment:** Stand by for the mini-revolution. By **Ian MacDonald**

Fresh air as barriers fall

Deregulation is bringing a flood of investors to Philippine shores

Deregulation of the banking and insurance industries is set to produce a mini-revolution in these sectors.

It is already showing signs of spurring greater overseas investment in manufacturing *industries*; and in the coming months, up to 30 of the world's largest institutions will arrive.

Compared with regional rivals such as Malaysia and Thailand, foreign investment in the Philippines is small. To the end of last year, total direct investment amounted to $3bn (£1.8bn). The 1994 figure of US$796m was swelled by the partial privatisation of Petron when Saudi Aramco paid US$500m for a 40 per cent stake in the country's largest oil *refiner*.

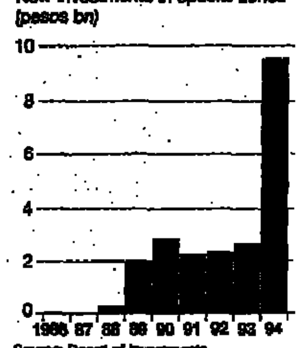
The government releases figures for new investment only annually, but Board of Investments statistics for new approvals given between last January and July suggest the total will reach US$4bn by the end of the year.

Japanese companies, particularly those involved in electronics and electronic components, dominate foreign investment at a time manufacturers have been struggling *under the burden of a strong* yen. The US also has a significant presence, but Hong Kong-based concerns are now looking at a Philippine option in the run-up to the handing over of the colony to Beijing in 1997. Taiwan and Korea are also being targeted by government agencies. There was initial success earlier this year *when a consortium of* 45 Taiwanese companies invested US$423m to develop a 300 ha industrial park in Subic Bay freeport north of Manila.

Already some foreign companies are bringing their suppliers to the Philippines – Honda, for example, is now surrounded by 11 of its suppliers at the 224 ha Laguna Technopark *industrial* estate *on a* green fields site some 40km outside Manila. There is a strong expectation the presence of a fresh wave of bankers will encourage this trend.

Foreign investments

New investments in special zones (pesos bn)



Source: Board of Investments

On the insurance front, the government is allowing 20 foreign companies – 10 life and 10 general – to set up during the next two years. They will join four foreign insurers – Philamlife, SunLife, Manulife and Jardine CMG – which have been operating in Manila for more *than 50 years*. Between them, these four control about two-thirds of the local life market, with almost 100 local companies competing *in the non-life* sector.

The introduction of so many new insurers is viewed with mixed feelings by Lance Kemp, Asia-Pacific general manager of Canada's SunLife. Competition will improve pricing to the public and improve the range of products, he says; but he is concerned about potential disruption *in both the insurance* and banking sectors as the newcomers attempt to poach upper management.

Special industrial zones scattered throughout the country are enjoying a boom as government seeks to decentralise the economy from overcrowded Manila. Foreign investment in the country's eight main zones *has risen tenfold since* 1993 *to* US$1.6bn.

One of the most successful export processing zones has been at Mactan, within the second largest urban centre of Cebu, 550km south of Manila. It was established in 1979, with watchmaker Timex the first company to move in. Timex, which now employs more than *3,000 at Mactan* and produces about 80 per cent of all Timex watches there, has been followed by a wave of other foreign companies, 60 per cent on them Japanese.

Incentives for foreign investors to locate at sites such as Mactan, described as attractive by companies now in the Philippines,include duty-free importation of machinery and *raw materials, a minimum* 4-year tax holiday – in some cases 8 – and a reasonable level of infrastructure.

There is unanimous agreement on another attraction: inexpensive local labour. "Just as important is the fact that they provide good craftsmanship," says Mr Graham Maitland-Smith, head of the UK firm *Maitland*-Smith, manufacturers of furniture and decorative objects.

These attributes, plus the fact that English is widely spoken and that the Filipinos are perceived to be adept at learning new skills, including management skills, often sway the balance when companies are considering where to locate in the region. Company heads are often fulsome in their praise of the quality of work and efficiency.

Teiji Sasagawa, who leads Fujitsu's Philippine car audio equipment operations from Laguna Technopark, reports *efficiency equal* to that at the parent company's plants in Japan and ahead of Malaysia.

The pace of growth cannot rely on these benefits alone, however. During the late 1980s and early 1990s one of the key *considerations for foreign companies* looking to invest in south-east Asia was the Philippine political scene. Politically, the Philippines is now a far more stable country than it was under presidents Ferdinand Marcos and Cory Aquino, although the government of Fidel Ramos still has to resolve the problems of Mus*lim separatists in the southern* region of Mindanao. The situation has improved sufficiently, however, for some multinational conglomerate such as Proctor & Gamble to consider *Manila* as a regional headquarters.

All the signs are that the recent growth of Japanese direct investments and the *continuing recovery of the* Philippine economy will ensure the mini-boom of overseas investment of the last two years will persist for the rest of the decade.

■ **Subic Bay:** Unlikely success out of the trauma of US withdrawal. By **Peter Montagnon**

Commitment beats the cynics

Top management, improved access, investments and tourist potential make audacious ambitions almost plausible. Politics remains the threat

November 24, 1992 was a traumatic day for the small city of Olongapo on the coast about 80 miles north-west of Manila. This was when the US navy withdrew from the adjacent Subic Bay base, on which the town's entire livelihood depended.

But it was also the beginning of a great new venture for Richard Gordon, then Olongapo's smooth-talking and charismatic mayor and now suggested as a future candidate for the country's presidency.

By dint of sheer willpower, Mr Gordon managed to assemble a team of around 8,000 vol*unteers to protect the site* against the threat of looting. By dint of hard selling to government and business, he turned the base into a free port which has since attracted some $1.2bn in investment commitments.

Companies which have got involved in Subic Bay include Acer, the Taiwanese electron*ics company, Thomson of* France and Federal Express. The US forwarding company has made Subic its regional Asian hub.

Subic is making its international political debut next year, when it plays host to heads of state at the Asia-Pacific Economic Co-operation summit in 1997. Flushed with *this success, there are no* bounds to its audacious ambition. Staff at the Subic Bay Metropolitan Authority (SBMA), which Mr Gordon now chairs, talk of creating a new Singapore or Hong Kong – a service and manufacturing centre for the whole Asian region based around its deep water port.

That prospect looks remote, even though the zone's 60,000 ha size is larger than the surface area of Singapore, and the port is blessed with a deep main bay nearly 10 km long. But economists believe Subic could still eventually be an important growth catalyst for surrounding Luzon province.

Success in this objective matters because Manila's delapidated infrastructure and congested port handicaps the capital as an engine of *national growth. The Philip*pines cannot emulate Thailand's Bangkok- centred success. It needs a more decentralised approach.

Subic, though, is still *quite* small. Only $800m (£500m) of total investment commitments involve projects that are actually under construction or up and running. At 27,000 the *workforce is still substantially* smaller than the 42,000 formerly employed by the US Navy.

Leasing revenues of the SBMA are only around 60m pesos a month. Port revenues were only around 22m pesos last year, though this total was exceeded in the first six months of 1995.

Still, Subic has a reasonably well trained, English-speaking workforce and can boast a constant stream of new developments to boost its attraction. With its mountainous coastline, unpolluted beaches and *virgin rain-forest, there is also* scope to develop tourism.

A new road is being built to the port, which will enhance communications with the central Luzon plain: at present the only access is by a narrow road that zig-zags through the mountains.

When the US Navy pulled out of Subic Bay in 1992, its work force was traumatised. But out of the ashes, a phoenix is rising

The World Bank, which has already financed an expansion of Subic's airport facilities, is paying *for a study* on port development. And Federal Express promises to be a strong incentive for the electronics industry which requires speedy shipment of both inputs and finished product.

Some of the early investors have adapted to their own use naval maintenance equipment left *behind* by the US. These include an Australian crane manufacturer and Asian Amoured Vehicle Technologies, a joint venture between Filipino companies and GKN of Britain.

It is assembling 150 armoured vehicles for the Philippines armed forces from kits supplied by GKN.

"The biggest advantage," says Cesar Pio Roda, the company's president, "is that we are able to avail ourselves of the facilities previously developed by the US military.

"It is very appropriate to the business we are in."

But a more significant pointer to Subic's attractiveness is Taiwan's plan to establish a 300 ha industrial park there as part of its efforts to diversify foreign investment *away from mainland China*. The park is being developed jointly by the SBMA, a consortium of Taiwanese investors, and the Taiwanese government which is providing development aid.

Besides Acer, which manufacturers computer motherboards in Subic, a number of large Taiwanese companies are investing, including Elite, the electronics group, and Subic Stars which manufacturers shoes for Reebok.

Like other investors, Shyu Chao-ling, a Taiwanese adviser to the project, cites the infrastructure and the ease of recruiting cheap skilled labour as attractions. The US left behind infrastructure which is not readily available in other countries where Taiwan invests, such as Vietnam, he says. He is less certain about the tariff and other financial concessions offered by the government.

These include exemption *from import duties and a tax* rate of only 5 per cent on gross income (turnover after deduction of cost of sales).

Besides, some investors say the Philippine customs are not always co-operative. Jeremy Simpson is vice-president of Cambium International, a specialist company manufacturing high quality wood veneer products, including the bedside switch consoles for the Peninsula Hotel in Hong Kong. He points to the envy Mr Gordon's high profile has aroused in parts of the political establishment, and says some in *Manila do not want Subic to* succeed. Bonding arrangements for importing and exporting goods through Manila are difficult, he says. "It's a very significant obstacle."

Subic could offset this by further enhancing its infrastructure, especially since this appears such an important selling point. The US company Enron *has already built a 100 MW* power station which also supplies the Luzon grid. AT&T helps run Subic's telecommunications.

Subic needs further development, however, said Taiwan's Mr Shyu, particularly of the port, which lacks facilities on the scale that could make it a hub.

The need *for* long-term investment in infrastructure raises the question of whether Subic will continue to enjoy the same political support from future administrations.

"This place has plenty of *opportunity to go wrong*," says Cambium's Mr Simpson.

Mr Gordon might run successfully for president and *take* all his Subic staff – many of them talented US-educated lawyers – with him into government. The next generation of management is unlikely to be either so uncorrupt or so dedicated. Or he might run and fail, in which case his victorious opponent would close him down, he says.

Of course, it does not have to turn out like that. Mr Gordon is cagey about his political plans. By the time of the elec*tion in 1998. Subic might* have reached the critical mass to ensure its survival.

But Mr Simpson's scepticism is a reminder that, in spite of the Philippines' striking comeback under President Ramos, political risk still cannot be ignored.

■ ***Oil and petrochemicals:*** *The sector awaits a liberalisation, reports* **Edward Luce**

End-1996 is Manila's goal

A nation used to cheap petrol is digging in its heels – and the political and financial costs are rising

Three years of breakneck liberalisation has put the Philippines into the ranks of the more laisser-faire economies in the developing world. Telecommunications, banking, insurance, power and, in the near future, the retail sector have all been opened up to at least partial foreign competition by the Ramos administration.

One of the few, and perhaps most important, industries which remains to be liberalised is the oil and petrochemicals sector.

Divided between the big three of Petron, the privatised Philippine oil company, Caltex (Philippines) of the US and Shell (Pilipinas), the subsidiary *of the Anglo-Dutch multina*tional, the country's oil and petrol oligopoly remains highly regulated.

The government, which has been under constant pressure from the International Monetary Fund to push ahead with oil and petrochemicals liberalisation, has set itself the target of full liberalisation by the end of 1996. The Oil Deregulation Bill, which would open up the petrol sector to other foreign competitors, is expected *to* be enacted by Congress within six months.

Large political stumbling blocks, however, impede the already complicated road to full liberalisation.

The freeing of petrol prices, which are kept at fixed rates well below international levels through a government buffer mechanism, the Oil Price Stabilisation Fund, is expected to be highly controversial. Twice in the last 18 months the government has felt compelled to *withdraw proposed petrol price* increases in the face of nationwide protests spanning taxi-drivers, commuters and the unions.

The government's most recent attempt in July to slap a 15 per cent increase on petrol prices at the behest of the three companies was withdrawn almost immediately. *The three companies pointed* out that the buffer fund was 4bn pesos (£100m) in arrears. Any further delay would simply increase the eventual cost, they said.

"The longer the government delays the petrol price increase, the more dramatic the political as well as financial cost," said Reinier Willems, chief executive officer of Shell (Pilipinas).

"At the moment it looks like the decision is going to be put *off again*."

Last month the energy regulatory board provoked a sharp rebuttal from the department of finance when it suggested the proposed 1.27 peso (6p) per litre increase could be delayed until *next May. Alternatively*, the government could impose the increase but scrap the 1 peso government tax on petrol at the same time.

The department of finance estimated either option would *cost the government* 5bn pesos at a time it could little afford it.

Mr Francisco Viray, the secretary for energy, says the introduction of a market-based system is still on schedule for the end of *next year*. The arrival of new players, including French and US petrol companies, will be approved before 1997 he said.

"Greater foreign competition will ensure prices are kept at a reasonable level," he said. "After that the government's *role will be* to prevent smuggling [which is widespread] and impose higher environmental standards."

Executives at Shell, which has a 32 per cent share of the market as opposed to 24 per cent for Caltex and 44 per cent for Petron, say the proposed deregulation will open up the market to several new players *both in the retail service* and oil refining.

Shell, which has 27 storage depots and 800 service stations in the Philippines, says its recently opened $500m (£312.5m) refinery in Batangas, south of Manila, is already processing 165,000 barrels of crude a day for a rapidly expanding domestic market.

"The Philippines is an *attractive* and growing market, but only as long as the government sticks to the commitments it *has made*," said Mr Willems.

Other measures, including the scrapping of electricity cross-subsidies and opening up the petrochemicals sector to greater competition, are expected to be easier to push through.

The government recently staved off strong pressure to retain high import barriers on petrochemical products, arguing that Philippine industry would on balance benefit from *lower petrochemical prices*.

At least one foreign company, Thai Petrochemicals International, threatened to withdraw from a proposed $600m naphtha cracker joint venture in Bataan, after the government announced that tariffs on petrochemical products would fall from 20 to 10 per cent.

Economists say the government's *resolve on petrochemi*cals augurs well for the eventual showdown on the move to market prices for petrol.

"The government will eventually have to bite the bullet as it has done in other sectors," said Matthew Sutherland, chief researcher at Asia Equity Securities in Manila.

"It's just more difficult to sell *in the case of petrol* because unlike with *telecoms* liberalisation where telephone prices are expected to fall, petrol prices will have *to rise* quite dramatically."

The third, and most radical, plank of the government's liberalisation strategy is the privatisation of the national power corporation (Napocor). Mr Viray, who has commissioned studies on parallel state sell-offs around the world, says Napocor is on track to go ahead with privatisation early next year.

According to recent thinking, the most likely option would be to follow the UK model where distribution would be hived off to regional *electricity companies while* core transmission responsibilities would remain in government hands. Bids from foreign companies would be entertained.

Alternatively, under one sce*nario, Napocor's employees* would be given the option of a management buyout. Details will be thrashed out before the end of the year.

Whatever the final model, the fact that the government is *on the verge of liberalising oil* and energy two short years after solving one of the most chronic power crises in the region, underlines just how striking has been the transformation in the first three years *of the administration of* President Ramos.

■ **The stock exchange:** Loan agreement fuels urgency for change. By Ian MacDonald

Reforms get under way

Gone are most of the old suspicions; board meetings are long but productive

Long delayed stock market reforms are at last getting under way, and are expected to fuel an already active market.

The reforms, delayed by public feuding within the Philippine Securities and Exchange Commission, have been given urgency by an agreement on a US$150m (£93.7m) capital market development loan from the Asian Development Bank. The loan has to be drawn within 24 months of the agreement being signed in August, and release of the second half of the loan is dependent on at least half of the reforms taking place in the first year.

Reform, seen as a catalyst for further foreign investment in what is the second-fastest emerging market in the world, has been sidelined by the conflict between the SEC chairman, Rosario Lopez, and its four commissioners. The row came to a head in August when President Fidel Ramos, under pressure from the private sector, effectively sacked Ms Lopez; she agreed to take leave of absence until she becomes eligible for retirement this month.

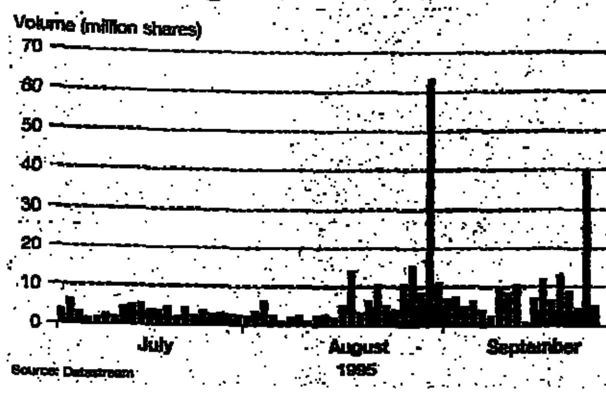
The task of appointing her successor had widely been expected to end with Eduardo De Los Angeles moving over from the presidency of the Philippine Stock Exchange. But in a move that surprised many in the market, President Ramos appointed one of the existing associate commissioners, Perfecto Yasay, on a temporary basis. Mr Yasay is a 48-year-old US-trained lawyer.

Mr De Los Angeles, however, is still seen as the one most likely to take over the SEC reins on a permanent basis. His appointment would be welcome within the stock market community. "We would be losing a good (stock exchange) president but gaining a good SEC one," said one veteran broker and former PSE governor, Irving Ackerman.

The reforms include:

- A plan to rationalise and assign regulatory responsibility among state agencies;

Stock exchange turnover



Source: Datastream

- Strengthening the regulatory framework to develop investor confidence. This includes establishing minimum disclosure requirements and requiring that a prospectus containing specified information be issued in respect of all public offers and made available to all prospective purchasers; and discontinuing the old SEC requirement that the initial offering price be specified in the registration statement;
- A minimum number of outside non-executive directors for publicly-listed companies;
- Abandoning the requirement that the SEC provide five days' notice of any on-site examination of a broker or dealer's books and records;
- Amending the definition of securities brokers to include banks;
- Conditions for registration as a broker or dealer to include an appropriate examination demonstrating competence;
- The appointment of at least three non-broker members to the PSE board of governors;
- A code of conduct to include adequate disclosure of conflict of interests, the prevention of insider trading, and segregation of customer funds to protect clients' savings from bankruptcy of an intermediary;
- The establishment of a central depositary system (expected by February 1996);
- Increasing the supply of equity shares to widen the retail investor population.

A trader at the Makati bourse

Mr De Los Angeles, the only non-broker on the PSE's 15-member board of governors, said just before the appointment of the SEC's new temporary chairman that for him any move would be made "with a heavy heart". He feels he has more influence on reform from within the exchange, and one of his concerns was that a change in leadership could lead to the return of divisive factions he has brought together over the past two years.

The 53-year-old lawyer is quietly proud of his role in the unification of the two exchanges; gone, he says, are most of the old suspicions; board meetings are long not because of infighting, but because of a common desire to tackle the stock market's problems. There is, he says, no serious opposition among governors to the reform that will lead to at least two brokers surrendering their seats to non-brokers.

Mr Angeles says revision of securities legislation is a priority, to make the rules tougher and more transparent. This would be welcomed by overseas investors who have been deterred by violations.

Roman Azanza, Manila-based director of Crosby Securities and chairman of the Philippine Capital Market Development Council, says investor confidence will be enhanced by these proposals. One additional area where he would like to see change is the speed of listing, which is frequently held up by bureaucratic delay.

Capitalisation of the Philippines market has increased 10-fold in the past five years to more than US$55bn, but the PSE itself is in its infancy. It is the product of the unification two years ago of the Manila SE, which began life in 1927, and the upstart Makati bourse, based in Manila's main business district and formed in 1963. Rivalry between the two exchanges meant turnover was low on both and, with trading floors, there could be two prices for a single stock. Foreign investors were not impressed, and steered clear of both.

Even now, with a single exchange, there are two trading floors, which, owing to different computer systems, can still produce small, if brief, price variations. But, come February 1996, this will pass into history when a single new computer system will take care of dealings on the two floors.

The market itself has had a generally buoyant year so far, and optimism abounds. Average daily turnover of 2bn pesos compares with less than 700m pesos two years ago and 1.3bn pesos 12 months ago. There are expectations of the index reaching 3,000 by the end of the year, even though the market has slowed in recent weeks.

"All we need is a bit of good news – such as a cut in US interest rates – to get us through 2,900 again," says Mr Noel Reyes of Dharmala Securities Philippines. He is looking for the market to return to its historic high of 3,346 – recorded on January 4 1994 – during the first half of next year.

Sharing the pleasure of that achievement will be Mr De Los Angeles. But by then he may well be watching from the corridors of the SEC.

PROFILE San Miguel — By Edward Luce

Beer group aims for top slot

As the Philippines' largest private corporation with a market capitalisation of over $5bn, (£3bn). San Miguel is viewed by many as the closest business approximation to a national symbol. Earlier this year it proclaimed its ambition to become the "best" Asian Pacific beer group by the turn of the century when it unveiled details of a 40bn peso (£1bn) five-year expansion plan.

The capital expansion drive follows a 36bn peso acquisition spree, which included the purchase of breweries and bottling plants in China, Indonesia and elsewhere in the Asia Pacific.

Mr Andres Soriano 111, scion of the old Spanish-Filipino family and chairman of the group since 1986, says San Miguel hopes to derive 20 per cent of turnover from overseas sales by 2000. At the moment 13 per cent of sales come from abroad, mostly from the group's 50 per cent share of the Hong Kong market and a growing share of the southern China market.

"We are also looking at Latin America," said Mr Soriano. "Obviously there's the advantage of the Spanish connection. But there are also synergies to exploit. Many Latin American breweries are looking at expanding in Asia."

Andres Soriano 111, chairman of San Miguel since 1986

San Miguel's ambitions are viewed as overblown by some analysts in Manila who point out that the group's shares have been languishing for months as a result of lower than expected net profits. Earnings grew by 13 per cent to 2.59bn pesos in the first half of 1995, significantly less than anticipated in the light of the rapid growth of consumer spending.

At 12.7 per cent of turnover, operating profits are also seen as disappointing, considering the group has an 86 per cent share of the Philippine beer market. At 7.2 per cent of turnover, net profit margins are even lower. Mr Soriano says San Miguel is growing according to plan but admits the group has problems with the Philippine tax regime.

Recent estimates show that about 5.8 per cent of the Philippine bureau of internal revenue's annual tax collection comes from San Miguel. Most of this is derived from a 60 per cent ad valorem tax on costs.

"The bottom line is that if we increase our costs by one peso we have to put our price up by 1.6 pesos," said Mr Soriano. San Miguel, along with other leading Philippine corporations, is talking to the department of finance in Manila to revamp the tax system.

Earlier this year the government announced plans to broaden the tax base and simplify the system in reaction to evidence that less than 10 per cent of the Philippines' 26m eligible taxpayers pay their dues. Similar discrepancies were found in the corporate sector. The final blueprint has yet to be hammered out.

"I think what most of the private sector would like to see is the tax system you have in Hong Kong, which is simple and low. Tax collection rates are therefore high," said Mr Soriano. San Miguel is lobbying hard for the ad valorem tax to be replaced by a simple tax on volume.

Asia Breweries, San Miguel's only serious local competitor, which is owned by Lucio Tan, a Chinese-Filipino taipan, has successfully diluted the effects of the ad valorem tax by selling its beer to a marketing company which is eligible for tax concessions.

San Miguel's other worry is a longstanding tussle between the government and the Coconut Industry Investment Fund, which acquired a broad range of economic interests under the Marcos regime, covering ownership rights to a sequestered 48 per cent block of the group's equity. The stake is being contested in the courts.

Until the case is resolved, which, lawyers say, could be years, San Miguel's ability to raise equity is constrained. "Basically we are confined to debt issues and borrowing from private banks," said Mr Soriano. "We have not had any trouble raising capital, but a rights issue is obviously out of the question."

With more international debt offerings in the pipeline and plans to issue longer term commercial paper in Manila once the market has developed further, San Miguel plans to resort to increasingly sophisticated ways of tapping the Philippines' growing pool of domestic savings.

San Miguel's B shares, which are open to foreign buyers, have for much of the year been stuck at below 90 pesos, which is significantly lower than its historic high of 114 pesos. A rash of IPOs, mainly from newly-formed real estate companies and telecoms operators, has eaten into blue-chip liquidity. San Miguel, though, views the problem as temporary. "Analysts are sometimes unfairly disappointed if earnings growth is not higher than 30 per cent," said Mr Soriano.

On a broader basis, and as an unofficial spokesman for the Philippine private sector, Mr Soriano says he is confident businesses will continue to benefit from the Philippine economic recovery. Among the changes Mr Soriano says the private sector hopes the government will push through are radical tax reform, wholesale changes to the public bureaucracy, the development of a modern agricultural sector and the growth of a sophisticated domestic bond market.

"There is enormous untapped potential in the bond market," he said. "The central bank's decision to rationalise the 'single borrowers limit' should help open it up. Perhaps the development of the capital markets will help balance the stock exchange, which is volatile and has for too long been looked upon as the best way of raising funds."

■ **Banking:** There is radical change, writes Peter Montagnon

It is a new era – and foreigners are welcome

The handful of international banks are soon to be joined by 10 more

Banking in the Philippines entered a new era this year when the government decided to open the domestic market to 10 new foreign banks.

"Our objectives are to attract foreign investment, facilitate access to bond markets, enhance efficiency of the domestic financial system and to increase competition," says Mr Gabriel Singson, governor of the central bank.

Certainly the move is a radical departure. The local banking market has been been barred to new foreign institutions since 1949. Until this year, only four had permission to operate there: Citibank, Bank of America, Standard Chartered and HSBC.

Now they are to be joined by an impressive list of newcomers – ING Bank, Deutsche, ANZ, Development Bank of Singapore, Chemical, Bangkok Bank, Korea Exchange Bank, Fuji Bank, Taiwan's International Commercial Bank of China and Bank of Tokyo. All have been granted a full service licence.

Yet local bankers say they expect the impact on the domestic market to be limited. The newcomers will be restricted to six branches each, so they will have restricted access to peso deposits. They are generally expected to steer clear of retail activities and, instead, most will concentrate on providing support services, such as trade finance and foreign exchange, to investors from their home countries who are setting up in the Philippines.

A familiar bank on the spot can make foreign investors feel more comfortable. The change should stimulate foreign investment and create reciprocal opportunities for Philippine banks to set up abroad, while putting only gentle pressure on the domestic banking system.

There will be additional pressure on lending margins for corporate business, partly because foreign banks are likely to add more depth to the domestic commercial paper market, says Mr Rafael Buenaventura, president of Philippine Bankers' Association.

Most bankers add, however, that the local market is in relatively good shape by developing country standards. Since the banks were forced to clean out their bad loans in the financial crisis of the early 1980s, their balance sheets are strong. Cost-income ratios are generally under control despite the large branch expansion of some institutions, notably the two largest banks, Metrobank, and the state-controlled Philippine National Bank, which are trying to gain market share.

Provision of modern banking services, such as automated teller machines and credit cards, is reasonably well advanced. Indeed, any requirement for further change has less to do with the need for more competition in a crowded market than with cumbersome restrictions adding to the cost of intermediation.

Not only must banks place 15 per cent of their deposits with the central bank as a minimum reserve requirement, but 25 per cent of their lending must go to smaller enterprises and agricultural businesses. On top of that, they are subject to a 5 per cent tax on gross income.

The effect, bankers say, is to add two to three percentage points to their interest costs, though the precise amount varies with the level of interest rates. This is one reason why there is such a gap between the rate of about 3 per cent on savings deposits and lending rates in their low teens.

Relaxation of these restrictions would mean banks could pay more on savings and charge less on loans. Mr Buenaventura says their priority would probably be to reduce lending rates, which would help the country's economic development.

A large contingent of foreign banks may add to the pressure for quicker reforms. The authorities have been moving in that direction, for example by liberalising branching restrictions.

Reserve requirements have also been cut, but the central bank's ability to reduce them further depends heavily on the government reducing its fiscal deficit.

Beyond that, the foreign banks are also expected to add depth to the local money and foreign exchange markets, partly because they are likely to focus largely on foreign exchange business and partly because they may decide to use the forward foreign exchange market as a means of funding themselves in pesos.

A few may also try to become more directly involved in the domestic retail market by taking a different entry route.

The new rules also permit foreigners to own 60 per cent of any institution. The first banks to do so are expected to be Dao Heng, of Hong Kong, and Spain's Banco Santander. China Trust, a Taiwanese bank, is also expected to follow. This approach gives the foreign bank full management control and freedom to establish branches. The queue to set up such subsidiaries is much shorter than for straight banking licences, however. That suggests that most foreign banks are mainly interested in wholesale business.

Though the rapidly growing middle class in the Philippines creates opportunities in retail banking, margins are expected to remain slim because a large number of relatively sophisticated local institutions vie for available business and introduce new savings instruments, such as mutual funds.

With 34 commercial banks controlling total assets of only just over 1,000bn pesos, the Philippines looks over-banked. Consolidation in the banking sector is accepted as inevitable, regardless of the pressures created by the newcomers. Mr Buenaventura believes the top five banks which control around 50 per cent of the market will have a share of about 80 per cent within a couple of years.

But the process will not necessarily lead to a reduction of the branch network to cut costs. Many of the smaller banks have only a limited presence in the market and depend heavily on the volatile money market for their funds. They are badly placed to meet the demands of a growing economy, which has seen credit demand rising more than 30 per cent a year.

"We don't have too many branches," says Mr Buenaventura, "but we do have too many banks."

■ **Tourism:** A survey of visitors produced some grim reading, reports **Ian MacDonald**

Problem in holiday heaven

The islands continue to suffer from difficulties with their image internationally

The task facing Eduardo Pilapil when he became the Philippines government's tourism secretary in July this year was brought sharply into focus within weeks. On his desk landed a document ahead of the first strategic planning workshop and conference to be held jointly by the Ramos *administration* and the country's tourism industry.

It made grim reading.

A survey of foreign tourists listed the things they disliked most about the country: one in five complained of pollution and a dirty environment; *fewer, but significant numbers*, complained about heavy traffic; of bad weather; of reckless and/or dishonest taxi drivers; people "always asking for tips"; poor airport facilities; widespread poverty and beggars; and poor transportation, communications and support services.

On the credit side, some 54 per cent praised the hospitality and kindness of Filipinos, and one in six had a good word to say about the islands' scenery and beaches.

Mr Pilapil was not entirely despondent; the fact that the government and the trade were getting together showed, he said, that serious attention was now being given to the industry's problems and that there was a resolve to set improvements in chain.

Mr Pilapil belives there is a vast untapped market in south-east Asia. To the people of the region he says: "Come and learn about our country." He has a *similar* message for the people at home.

Domestic tourism on a significant scale has yet to take off, but with the Philippines economy improving, the minister is urging his fellow countrymen and women: "Don't be a stranger in your own land".

The Philippines ought to be the envy of many of its *regional rivals. It has just over* 7,100 islands – about 2,000 of them inhabited while many others are little more than a speck of rock in the ocean – beautiful coastlines, coral reefs and a very diverse archipelagic culture. But the islands, with a land area of 300,000 sq km, continue to suffer from image problems.

High on the list is uncertainty over peace and order, although the government claims to have made inroads, particularly over the problem of Muslim separatists' activities in the southern island of Mindanao. Overall, there is a much calmer political climate than half a dozen years ago.

But officials anxious to attract what they describe as "quality" tourists are still battling the significant problem of infrastructure. True, the frequent power cuts are largely a thing of the past as a result of concerted efforts to increase and stabilise the country's supply, *but telecommunications* can still be erratic and travelling by road a nightmare.

Outside the main urban conurbations there is *only* limited hard-surface highway, and visitors attempting to negotiate the polluted capital, Manila, are faced with almost permanently traffic-choked streets.

Another image problem that refuses to go away is the sleazy sex industry. The Philippines has long had a reputation for attracting paedophiles, and soon after taking up his Department of Tourism posting, Mr Pilapil was greeted by the sight of newspaper advertisement cuttings from a European country advocating the delights of "hospitable Filipina girls".

He says Philippine approaches to foreign governments, appealing for help in taking action against travel *agencies and other operators* who use the sex image to promote their own trade, are beginning to win *sympathetic support*.

"This is the type of 'tourist' we want to drive out," says the minister. "We are targeting the quality *tourists* ... *the tourists* who want to come here to appreciate the beauty of our islands and to learn about our history and culture."

Department of Tourism statistics show that receipts from 1,573,821 overseas tourists topped $2.3bn in 1994, 8 per cent up on the previous year.

Last year's revenues, representing some 3 per cent of GDP, were "satisfactory", according to Mr Pilapil, but he is setting "fighting targets" for *the years ahead. A target, set* by Mr Pilapil's predecessor, of 2m tourists in 1995, is well on the way to being achieved, bol*stered by a particularly strong* first six months when there were more than 842,000 visitors, a 15.66 per cent advance on the corresponding period a year earlier.

Next year, the tourism department is looking for 2.5m tourists spending $3.3bn. But success in achieving what is seen by analysts as optimistic targets may hinge on another *problem:* travel, *both to* and within the Philippines.

Manila, the capital, has little to offer overseas holiday visi*tors. Having survived what for* many is a tortuous encounter with the airport, tourists then discover that progress through the country's largest urban centre is a stop-go affair in a concrete jungle. Air travel throughout the Philippines has long been erratic, but gradual deregulation of this sector seems to be paying off. More overseas airlines are now being granted access to Manila and, more importantly for the industry, to regional centres such as Cebu, a popular desti*nation close to beautiful* beaches.

On the adjoining small island of Mactan, several top-class beach resort hotels enjoy a thriving business for largely Japanese tourists.

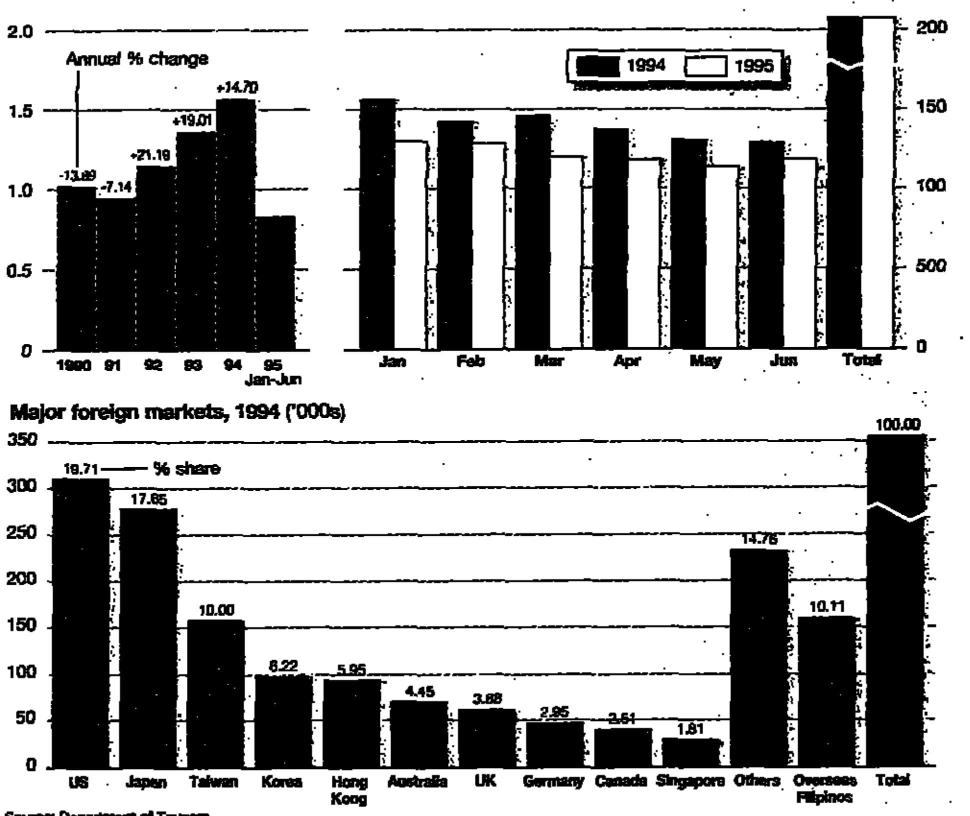
The emergence of a handful of small regional airlines is helping to satisfy demand on domestic routes where Philippine Airlines, the national carrier which once held a virtual monopoly of internal air travel, often struggled to provide adequate capacity.

Fellow members of the Association of South East Asian Nations are being targeted to give the industry a boost. Asean visitors to the Philippines account for only some 5 per cent of the total, whereas Malaysia sees some 75 per cent of its visitors from Asean countries, followed by Indonesia with over 40 per cent.

Europe accounts for only a tiny proportion of the market at present, but there are plans to launch a drive from Paris. There are hopes that the Philippines celebrations in 1998 of 100 years of independence will arouse interest from Spain.

"We want to be an important player *on the world stage*," says Mr Pilapil. His enthusiasm to travel in that direction cannot be doubted. It may, however, be a long and winding road.

Tourism



Source: Department of Tourism


A villager from the Tiboli tribe on Mindanao sports a traditional festive headdress

PROFILE Asia Development Bank

By Peter Montagnon

Banking for richer, for poorer

Fast regional growth and conflicting pressures from member countries have raised questions about the role of the Asian Development Bank, the one international organisation based in the Philippines.

Many of the bank's developed country shareholders, under pressure from voluntary organisations at home, would like it to pay more attention to social problems and *poverty. Its developing* country members, such as China, would prefer it to continue focusing on infrastructure, though the region's ability to attract private capital is making this harder to justify.

The man charged with piloting the institution through these difficult waters is Mitsuo Sato, its president of two years.

Mr Sato's tenure has been marked by an effort to improve the quality of the bank's lending, which he admits went to some "white elephant" infrastructure projects in the past. Last year this quest for quality led to a sharp drop in new lending, from $5.3bn to $3.7bn. However, Mr Sato says he is "fairly confident" that activity will return to its 1993 level this year.

The fall in volume also reflects efforts to find balance between infrastructure finance and so-called social sector lending, in areas such as health, education and the environment. "Finding the right equilibrium is an important question, and one we *have not yet solved* adequately," Mr Sato says.

Officials believe the bank still has a role to play in providing basic infrastructure finance and economic assistance. As Shoji Nishimoto, head of strategy says, some member countries, such as Bangladesh and Nepal, and some regions, such as inland areas of China, are too poor to attract foreign capital.

Even in countries which could attract private capital, the bank's presence helps boost confidence, he says, especially where there is a fear that the host government could backtrack on regulatory *or pricing commitments*.

The bank aims to achieve a 50:50 balance between the number of its infrastructure and social sector projects. *By* the year 2000 it also wants to fix the proportion by value so that only 60 per cent of its lending goes on infrastructure and 40 per cent on social sector projects.

This will lead to far more of the bank's staff resources being devoted to the social sector, as social sector projects, although they consume less capital than infrastructure projects, are generally backed up with a good dollop of policy advice.

One problem is how to evaluate social sector lending. Few would disagree that improved education can bring economic returns, but those returns are harder to measure than the ones from conventional infrastructure projects – under the bank's rules these must achieve a 10 per cent internal rate of return in dollar terms.

However, Mr Sato says, "we can take a look at whether the project has finished its *real objectives and whether it* has been carried out as designed or in terms of a time frame".

The bank is also developing a methodology for calculating the economic benefits of social lending.

Without such a method the bank will risk criticism for squandering its money on unproductive social projects. Some officials also believe that social sector lending could become such a fetish that it will distort other loans, such as those to the financial sector.

Mr Sato admits that the new emphasis on social sector *projects may restrict the total* amount the bank can lend. As the flow of funds declined, the bank would risk "losing bargaining *capability* vis-a-vis the borrowing countries in terms of improving their policies and institutions".

The ADB is not yet, like the World Bank, receiving net repayments of resources from its member countries. A small net flow still goes from its ordinary capital resources to developing countries, and a substantial one goes out from its Asian Development Fund, which gives concessionary loans to its poorest members.

The bank is in tortuous negotiations to replenish this fund, which will otherwise run out next year.

Whatever happens to the ADF, the bank will become more involved with policy advice as its traditional business of infrastructure lending declines in relative terms.

This will mean speaking out in favour of the Asia Pacific Economic Co-operation group, as long as it does not become an exclusive trading bloc. The bank is promoting economic integration at a sub-regional level. It is playing a leading role in facilitating co-operation among the countries along the Mekong River – Burma, Cambodia, China, Laos, Thailand and Vietnam – which are not used to getting along with one another.

According to Mr R.M. Tan of the bank's West Asia programmes department, this involves relatively little money, for projects such as much-needed road improvements between Phnom Penh and Hanoi, but a great deal of technical help in developing appropriate cross-border *immigration regulations and* regional energy and transport plans.

Some economists argue that the bank is making a mistake in following slavishly the World Bank's market-orientated approach to giving policy advice, and that it should inject a distinctively Asian angle to the international debate on development. This would reflect the debate in Japan where aid officials have questioned the conventional approach, noting the role of the Japanese and Korean governments in steering industrial and economic development.

"I have some *temptation* to do that," says Mr Sato, but for the time being the bank *was concentrating on digesting* World Bank research into the East Asian growth miracle. "Only after that can we look at what *is lacking* in their analysis."

The bank intends to produce its own report, he says, in which "some differences of opinion might emerge". This is likely to be published at the end of next year to coincide with the bank's 30th anniversary.

It would be an appropriate moment for the bank to start making a more distinctive mark of its own.

■ **Political succession:** *Gloria Macapagal says the electorate is 'clearly more intelligent than it has been given credit for', writes* **Edward Luce**

Economist upsets old voter presumptions

'I am not entirely convinced that the central bank is being vigilant on inflation'

One of the most unexpected features of the Philippine congressional elections in May was the electorate's clear preference for candidates with a technocratic background.

In a culture which expects its politicians to dance on the hustings, deliver stand-up comedy routines and rely on all manner of outlandish gimmickry to earn their votes, the success of candidates such as Gloria Macapagal was the more surprising.

With over 15m votes nationwide out of the estimated 25m who went to the polls, Senator Gloria Macapagal-Arroyo netted the largest senatorial vote in Philippine history. Campaigning under the slogan: "Gloria. The economist", the former professor of economics appears to have captured the mood of the *Philippine* electorate in May.

The fact that Ms Macapagal's campaign poster featured a glamorous picture might have also had an influence on the electorate, it has been suggested. But for Ms Macapagal, who intends to be at the forefront of congressional moves to further liberalise the economy over the next three years, the result was proof of the electorate's new-found maturity. "People often criticise the Philippine electorate for endorsing movies stars and basketball players, but it was an economist who came top.

"The electorate is clearly more intelligent than it has been given credit for," she said.

In another sense, however, very little has changed. Ms Macapagal, whose father, Diosdado Macapagal was president of the Philippines between 1961 and 1965 when Ferdinand Marcos thwarted his attempt at a second term and ushered in 21 years of dictatorship, is in other ways a typical representative of the Philippine political class.

Among the other 11 candidates elected to the 24-member senate in May were another two offspring of former presidents, Ramon Magsaysay jnr and Sergio Osmena III, as well as several old style "pork-barrel" politicians.

In spite of having made room for the occasional newcomer, Philippine politics is still dominated by the country's most powerful 60 families half a century after the country received independence from the US.

The fact remains, however, that Ms Macapagal is a qualified academic with a possible eye on the job her father once held. "The thought has inevitably crossed my mind," she said. "But in general I am not worried about the quality of presidential candidates for 1998. There is now an irreversible consensus in favour of reform. Any candidate who campaigned against the economic reforms would be ruling himself out straightaway."

As part of her effort to ensure the consensus remains as solid as it is claimed to be, Senator Macapagal says she intends to push hard for further economic and social reforms in the 10th Congress. Ms Macapagal, who stood for the Liberal Democrat Party, which officially backs the Ramos administration, says that recent political musical chairs – which deprived her of the chairmanship of the Senate committee on trade and commerce and appears to have landed her, albeit briefly, in an opposition block – would not detract from these objectives.

Among others measures, the senator intends to intensify efforts to implement the Comprehensive Agrarian Reform Act – a three-year-old law aimed at land distribution which is widely held to have failed. The practise of absentee landlordism, she says, has held back the country's economic development and pushed the rural poor into menial overseas jobs and urban squatter settlements.

Ms Macapagal will also be involved in the finer details of a new tax system aimed at widening the net while lowering the rates. The main thrust of the bill will be to replace the government's reliance on the three-year privatisation programme – which has delivered two years of small budget surpluses – to more regular revenue-raising methods.

Another goal over the next three years will be to create an efficient public sector, she says.

"The first three years of the Ramos administration concentrated on macroeconomic reform.

"We should now concentrate on microeconomic reforms, including slimming down public bureaucracy; introducing meritocracy into the public sector, including performance related pay; and reducing the number of government agencies," she said.

"This will be much more difficult than the earlier reforms, but it must be done if we are to reach high sustainable rates of growth."

Unlike members of the Ramos administration, Ms Macapagal does not believe the Philippines is capable yet of achieving sustained double digit rates of growth without reverting to the inflationary boom-bust cycles of old. She is at odds with the government's thinking when she says there are advantages to sacrificing a couple of points of GNP growth in order to build economic stability.

"I am not entirely convinced that the central bank is being vigilant on inflation," she says. "But I think that apart from the inflation danger, there would be benefits to having growth of around 8 per cent as opposed to 10 per cent.

"We can learn from Thailand – which is a similar size to the Philippines and is a similar culture, but developed 20 years before us. By going for slightly lower growth we could have the scope to decentralise the economy to prevent Manila from turning into another Bangkok.

"We would also have the scope to pursue a more environmentally friendly form of development, which in the long run has its economic advantages."

Some, especially those who live in Manila, would argue that it is already too late to prevent the traffic-congested and badly polluted Philippine capital from turning into another Bangkok.

With over 30 per cent of Philippine GNP and, at 11m, containing something close to 20 per cent of the country's population, Manila is already splitting at the seams.

Ms Macapagal, however, is confident that the promotion of regional duty-free zones and an accelerated national road building and port development programme – using the build operate transfer law to attract foreign investors – will eventually lead to economic decentralisation.

With 7,100 islands and a widely scattered rural population, the Philippine archipelago does not lend itself to economic integration.

The more reflective breed of politician, however, among whom Ms Macapagal is certainly counted, are increasingly saying that overcoming the Philippines' "urban bias" is the biggest challenge facing the country over the next few years.

■ **Overseas labour:** *The government's impotence has been highlighted twice, writes* **Edward Luce**

Migrant worker headaches

The brutal fact is that the economy relies heavily on repatriated earnings

The execution of a Filipina maid, Mrs Flor Contemplacion, for double murder in Singapore on March 17 put the Philippine government in a quandary. Most people in the Philippines still believe Mrs Contemplacion was framed for the murder of a Filipina maid, Ms Delia Maga, and her four-year-old Singaporean charge.

In the aftermath of the hanging, the Philippines withdrew its ambassador to Singapore, cancelled annual naval exercises between the two countries, and commissioned a wide-ranging review into the plight of many of the country's estimated 4m overseas workers.

The government's robust diplomatic response to Singapore's public indifference to appeals for a re-trial or, at least, a postponement of the execution date, went some way towards restoring its credibility with an enraged electorate. The enforced resignation of foreign secretary, Mr Roberto Romulo, and the minister for labour, Ms Nieves Confesor, signalled that the government took the issue seriously.

But the Contemplacion saga, which spawned two of the best-selling cinema dramas this year, also highlighted the Philippine government's impotence in the face of overseas labour problems.

Another Filipina maid, 16-year-old Sarah Balabagan, was sentenced to death on appeal by an Islamic court in the United Arab Emirates on September 16 for the premeditated murder of her boss.

Her employer, Mr Mohammed al-Baloushi, had been posthumously convicted of multiple rape at the original trial earlier this year.

With 9 per cent unemployment and over 20 per cent of the workforce estimated to be underemployed, there appears to be little the Philippine government can do in the short term to prevent mass labour migration and its attendant problems.

The minimum wage for Philippine workers is 120 pesos a day or about a quarter the remuneration of a Filipina maid in Hong Kong or Saudi Arabia. At $300 a month plus board and lodging, a domestic worker in the Gulf is paid around double the average wage of a nurse or a teacher in Manila.

"Filipinas are not going to work at home until their husbands can get decent jobs with at least the equivalent salaries they are paid abroad," says Ms Luz Aniga of Kakammpi, a Philippine non-governmental organisation for the protection of overseas workers.

When it published its recommendations in July, the Gancayco commission, which had been set up by the president to find ways of assuaging the overseas worker problem, urged the Philippine government to ban the migration of workers to problem countries such as the Arab Gulf states. The commission also recommended that overseas labour in east and south-east Asia be phased out over the next five years.

President Ramos endorsed the report but has not yet acted on its findings.

"The Gancayco recommendations were ridiculous," says Professor Alex Magno, at the University of the Philippines. "If you ban workers from certain countries they'll just go there illegally, which means they'll get even less protection than they did before."

Economists say that the only solution to the problem, which has broken up millions of Philippine families and spawned the phenomenon of "problem children" back home, is to create at least a million new jobs a year to eliminate unemployment.

Manila students protest against the death sentence on Sarah Balabagan

Another awkward feature of the overseas worker problem is the Philippine economy's reliance on the estimated $4bn remitted by overseas workers every year. Last year the Philippines recorded an overall balance of payments surplus of just over $1bn. The current account deficit of 4.8 per cent would have been closer to 10 per cent without Filipino payments from abroad.

The $7.8bn deficit on merchandise trade in 1994 came to 13 per cent of gross national product.

The central bank says that overseas worker remittances are growing rapidly as Filipinos abroad regain trust in the Philippine banking system. In other words, a large share of the remittance bill has until recently been repatriated in cash form and therefore escaped the calculations of government statisticians. This suggests that annual remittances have been substantially underestimated.

"The brutal fact of the matter is that the Philippine economy relies heavily on the repatriated earnings of Filipina women in menial jobs overseas," says an official at the department of finance.

"The even more brutal fact is that this is going to remain the case for many years to come."

In the long term it is hoped that increased foreign investment and the Philippines' growing export industries, spanning electronics, furniture, garments and machine parts, will soak up many of the unemployed whose wives currently work abroad.

The creation of new jobs in the export industry and in foreign investment zones this year was offset, however, by the loss of jobs in the agricultural sector which dipped into negative growth in the second quarter. Many, therefore, argue that the key to solving unemployment lies in wide-ranging agrarian reform.

"The Philippines's overseas worker phenomenon is the inevitable corollary of the absence of land reform," says a Philippine investment banker in Hong Kong.

"Without radical redistribution of land the agrarian poor will continue to seek their fortune overseas."

Sceptics, however, point out that wholesale land reform is very difficult to bring about in a democracy. The majority of representatives in the Philippine Congress have direct or at least indirect ties to substantial rural land holdings or "hacienda" estates.

Radical land distribution elsewhere in Asia, particularly Taiwan and South Korea, was enacted by autocratic governments with little accountability to their rural elites. The chances of a parallel reform programme in the Philippines would be very low.

"The overseas worker problem is only going to be solved gradually," says Professor Magno.

"It will take years of steady economic development to create enough incentive for the majority to take employment at home. People are just going to have to be patient."

PROFILE Ayala Land By Ian MacDonald

A stake in the engine of the stock market

As president of Ayala Corporation, Augusto Zobel is sitting on a quality land bank of more than 2,000 ha, the largest stock among Philippine property developers, at a time prices are rising at a furious pace. Property is driving the Philippine stock market and Ayala, having turned in another strong set of interim results, appears set fair.

Mr Zobel gives the appearance of being a satisfied man. But he readily confesses to nervousness over the booming land market.

Ayala is reknown for conservative management – perhaps too conservative for its own good, according to some Manila analysts – so it comes as no surprise when Mr Zobel says: "Yes, land sales have been very strong; but I get nervous when things go up too fast. We see this as a marathon, not a sprint."

Nervous or not, Ayala Land, the former Ayala Corp subsidiary spun off into an independent subsidiary in 1989 to handle the real estate side, will continue to purchase aggressively for the company's entire range, from commercial to residential. Mr Zobel's family holds a 64 per cent stake in Ayala Corp, which in turn owns 83 per cent of Ayala Land.

Ayala will certainly face competition, but one feature of its business strategy makes it stand out in a sector now seeing new tycoons riding the wave of prosperity: debt.

Ayala Land currently has a gearing of only about 40 per cent, and that is roughly how the ratio is likely to stay for the forseeable future.

"By nature we do not believe in debt," says Mr Zobel. "We are always very wary about raising debt in real estate. We accumulate debt for very big acquisitions but then pare it down quickly."

Ayala has a cash hoard of some 6bn pesos as a result of losing the battle for Fort

Augusto Zobel

Bonifacio, the 214 ha former military camp bordering the Makati business district of Manila, which was developed by the Ayalas in the 1960s. Last December Ayala issued 3bn pesos of commercial paper ahead of the Bonifacio bidding. In the event, its 28bn pesos bid came a distant second to the 39bn pesos offered by a consortium led by the rival Metro Pacific conglomerate.

The Metro bid staggered other competitors, and has led to bitter debate – and action in the courts - over the way the government auction was conducted.

It was the price tag put on Fort Bonifacio that led to the current spiral in prices, particularly in Makati, where prime office lots have more than doubled to 250,000 pesos per square metre already this year.

Some property-watchers feel the sector is going through another boom-and-bust cycle; but others maintain the market will simply reach a plateau in two or three years' time, much the same as it did in 1990.

Supply and demand is the key, and Ayala is confident that demand is here to stay in the Philippines, and particularly in Manila.

"More foreign companies are now looking to the Philippines, not just as a place for investment, but as a regional base for south-east Asia, says Mr Zodel. "Some Hong Kong concerns are looking post-1997; and office space will be needed for the 10 foreign banks who have recently been granted licences to operate here."

But Ayala Land is not concerned just with office space. Its interests in quality housing are now being augmented by a move into middle-class accommodation in Laguna, 40km south of Manila, where there is a thriving industrial park that is home to Japanese companies such as Honda, Fujitsu, and Hitachi.

"There is tremendous demand in the market in the 500,000 pesos to 600,000 pesos range," says Mr Zodel. The Technopark (housing) is "pretty well sold out", with strong Japanese demand, and there is a strong demand for retail property.

Ayala's biggest accomplishment remains the development of Makati, with high-rise office, commercial and residential buildings. The development continues, with several big hotels opened in the past couple of years, and the near-completion of a new Philippine Stock Exchange (PSE) tower next to the existing Makati Stock Exchange.

The company's influence on the PSE is substantial. Only Ayala B shares, open to both foreign and domestic investors, are listed in the market as the entire class A shares form part of Ayala Corp's core holdings. With a market capitalisation of more than 110bn pesos Ayala Land has a market weight of roughly 10 per cent on the PSE composite index and of more than 50 per cent in the property index.

Many have said the president should remain for another term, to keep the reforms on track.'I will finish in six years what most would not be able to do in 12,' he says Picture: Ashley Ashwood

■ **Interview:** President Fidel Ramos By **Edward Luce**

A careful guardian of goodwill

'I don't think constitutional change would inspire foreign investors'

President Fidel Ramos is entering the fourth year of a single six-year term as head of state. At the start of his term in 1992, Mr Ramos inherited negative growth rates, soaring inflation and hefty foreign debt obligations. In three years the former five-star general is credited with having turned the Philippine economy around.

Doubts remain, however, about the administration's resolve to push through judicial, public sector, and law and order reforms between now and 1998, when the president stands down.

President Ramos spoke to the Financial Times at the Malacanang presidential palace in Manila:

■ Most of the obvious economic reforms needed by the Philippines were enacted *during the first half of your* term. What remains for you to do?

The main priority for the 10th congress would be [to complete] the bills which were not fully completed in the ninth congress. There are the tax reform measures which would provide for the broadening of the tax base.

We are aiming for 18 per cent [tax collection as proportion of GDP] which is the average in the Asean [Association of South East Asian Nations] in the next two years. We started three years ago at 14.5 per cent and we are up at 16 per cent now so we are moving up.

We are also pushing remaining bills on adjustment and safety measures so that we will be competitive and faithful to our commitments under the World Trade Organisation – including safety and incentive measures for the agricultural sector.

■ You mentioned in your address at the opening of the new Congress on July 24 that public sector reform would be a priority of the next three years. You have also requested emergency powers to cut the public sector payroll.

We are giving priority to judicial reform measures. These include training education and incentives for prosecutors, judge advocates and other lawyers in public service so that justice will not be delayed.

The Philippine government has already been able to transfer some 109,000 public servants since I started in this office. At the same time we have hired another 20,000. That gives a net of 89,000 transferred to the field in last few years.

Eventually we will need [emergency] authority so that we can be more efficient and timely in the transfer of people to municipalities and in the provision of early retirement for those who want to leave this service.

We want to decentralise and devolve public bureaucracy to the field.

■ In your speech you said that the "Philippines cannot enter the 21st century with one foot in the feudal era". What did you mean by that?

If we waste goodwill among ourselves as leaders in intrigues and intramurals, we will not be able to reach the critical mass to keep the economic momentum going so that we can move sustainably into the 21st century.

■ By "intrigues" presumably you mean recent suggestions that the constitution should be changed from a US-style presidential system to a parliamentary system or to extend the presidential limit so that you could stand for another term. You have said before that you intend to play golf after 1998 but many people, including foreign investors, have said they would prefer you to remain in power to keep the economic reforms on track.

I will *finish* in six years what most would not be able to do in 12 so it amounts to the same thing.

I have suggested that the house of representatives do what the senate has already done, which is to get the commitment of the majority of its members so that the proposed [constitutional] shift would not take place during their term, so we can concentrate on a common legislative agenda. The majority have already verbalised this commitment but it will need an Act of Resolution to make it more official. It is important we put the policies in place and that they remain in place.

We have lived through the era of presidential decrees before [under the dictatorship of Ferdinand Marcos] so I don't think constitutional change would inspire foreign investors. Every country nowadays has to be as open, transparent, predictable and continuous in terms of policies as possible.

■ What is the major goal of your last three years in office?

At the start I divided the six-year term into three components. The first two years were devoted to economic recovery, growth and sustained progress so that we could generate the assets and funds to support our other programmes.

The middle two years, which is now, will focus on social reforms, especially the basic needs of the people including housing, relocation of squatters and job generation.

The last two years will be spent on electoral and judicial reform. The people clamour for a reform of the mechanism of the administration of justice. We have a variety of law enforcement agencies – I think there are 35 with law enforcement functions – so there are many agencies which need to be better co-ordinated.

We also intend to improve the electoral system to computerise the process and make it more efficient.

■ The Philippines still has very inadequate infrastructure, poor roads, and communications. How do you propose to rectify this?

There is a lot of investment needed there. We are availing as often as possible of the expanded build operate transfer [BOT] law, and some very difficult road building and power generation projects are being handled this way. The other day we signed a deal with PT Citra [the Indonesian construction group] to do a 12km double deck "skyway" road in Manila. The second phase of that is being studied now, and will be offered as a BOT arrangement which will take the tollroad beyond Metro Manila itself.

'We consider our low cost of living one of our best attractions'

■ Manila also has a very outdated water network. The World Bank estimates that up to one-third of the supply is lost through leakage and pilfering. In June you were given emergency powers to tackle the water crisis. How will you use them?

On water we have four, maybe five big groups doing water supply and management studies for Metro Manila. The policy is to conserve as much water as possible and improve the distribution of water. Southern water, By-water, Anglian, Northwest Water and Trafalgar have all expressed an interest.

The new BOT law makes it possible for negotiations to take the place of bidding with unsolicited proposals. We want the water BOT to be in place including the privatisation of some water components.

■ What do you expect the rate of economic growth to be in 1998 when you stand down?

At the beginning of our term we set the following goals: number one to reduce poverty by 25 per cent which would bring us down to between 25 and 50 per cent of the population below the poverty line. We also aimed for a per capita income above US$1,000. I think we are close to achieving that goal or have already reached it.

I think a better measurement is the purchasing power parity. We consider our low cost of living one of our best attractions. We also have very high literacy, fluency in English and comfort and ease with our neighbours – we don't have any enemies around the world. We hope to average 6 to 8 per cent GNP growth during this six-year period, which means that in order to catch up to the average, the last couple of years should be double digit growth. We are hitting the halfway mark this year at about 6.5 per cent.

■ Aren't you in danger of unleashing inflation again?

Our programme is to keep inflation in single digits. This month it is at 8.4 per cent, but that is one point better than the same time last year.

The important thing to remember here is that five years ago interest rates and inflation were above double digits, and we had very low foreign exchange reserves. Growth was below 4 per cent in all sectors. Everything has changed now.